

COMPREHENSIVE ANNUAL FINANCIAL REPORT
OF THE
CITY OF ONAWA, IOWA
FOR THE YEAR ENDED JUNE 30, 2006

PREPARED BY THE
OFFICE OF THE CITY CLERK

CITY OF ONAWA, IOWA
TABLE OF CONTENTS
JUNE 30, 2006

	<u>Page</u>
Introductory Section:	
Letter of Transmittal	1 – 4
GFOA Certificate of Achievement	5
Organizational Chart	6
City Officials	7
Appointed Boards and Commissions	8
Council Standing Committees	9
City Personnel	10
Financial Section:	
Independent Auditors' Report	11 - 12
Management's Discussion and Analysis	13 - 20
Government-wide Financial Statements:	
Statement of Net Assets	21
Statement of Activities	22 - 23
Governmental Fund Financial Statements:	
Balance Sheet – Governmental Funds.....	24 - 25
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Assets	26
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	27 – 28
Reconciliation of the Statement of Revenues, Expenditures, and Changes In Fund Balances of Governmental Funds to the Statement of Activities.....	29
Combining Statement of Net Assets	
Proprietary Funds	30 - 31
Combining Statement of Revenues, Expenses, and Changes in Net Assets	
Proprietary Funds	32 - 33
Combining Statement of Cash Flows	
Proprietary Funds	34 - 37
Notes to Financial Statements	38 - 51
Required Supplementary Information:	
Schedule of Revenues, Expenditures, and Changes in Fund Balance, Budget And Actual, General Fund and Major Special Revenue Funds	52 - 55
Notes to Required Supplementary Information – Budgetary Reporting	56
Supplemental Information:	
Governmental Nonmajor Funds:	
Combining Balance Sheet	57 - 58
Combining Statement of Revenues, Expenditures, and Changes In Fund Balances	59 - 60
Internal Service Funds:	
Combining Statement of Net Assets.....	61
Combining Statement of Revenues, Expenditures, and Changes In Net Assets.....	62
Combining Statement of Cash Flows	63

CITY OF ONAWA, IOWA
TABLE OF CONTENTS
JUNE 30, 2006

	<u>Page</u>
Statistical Section:	
General Government Expenditures by Function - General, Special Revenue, Debt Service and Capital Projects Funds	64
General Government Revenues by Source - General, Special Revenue, Debt Service and Capital Projects Funds	64
Property Tax Levies and Collections	65 - 66
Assessed and Taxable Value of Property	65 - 66
Property Tax Rates and Tax Levies - Direct and Overlapping Governments	67
Special Assessment Collections	68
Ratio of Net General Obligation Bonded Debt to Assessed Value and Net General Obligation Bonded Debt Per Capita	68
Computation of Legal Debt Margin	69
Computation of Direct and Overlapping Debt	69
Ratio of Annual Debt Service Expenditures for General Bonded Debt to Total General Expenditures	70
Water Revenue Bond Coverage	71
Demographic Statistics	71
Property Value, Construction, and Bank Deposits	72
Principal Taxpayers	72
Miscellaneous Statistics	73
 Comments and Recommendations:	
Schedule of Findings and Questioned Costs	74 - 76
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Governmental Auditing Standards	77 - 78

INTRODUCTORY SECTION

Honorable Mayor and City Council
City of Onawa
Onawa, Iowa

We are pleased to provide you with the Comprehensive Annual Financial Report (CAFR) of the City of Onawa. This report is for the fiscal year ended June 30, 2006. The report is submitted each year as required by State Law, Chapter 11.6. The report is prepared according to generally accepted accounting principles (GAAP) for government as established by the Governmental Accounting Standards Board (GASB). It is audited by Henjes, Conner & Williams, P.C.

The City's Department of Accounting prepared our report. Management of the City is responsible for the accuracy of the presented data and the completeness and fairness of presentation, including all disclosures. To the best of our knowledge and belief, the enclosed information is accurate in all material aspects and is presented in a manner designed to fairly present the financial position and results of operations of the City as measured by the financial activity of its various funds and account groups. All disclosures necessary to enable the reader to gain a complete understanding of the City of Onawa's financial activities have been included. Management of the City has established a comprehensive internal control framework that is designed both to protect the City's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City's financial statement in conformity with GAAP. Since the cost of internal controls should not outweigh their benefits, the City of Onawa's internal controls have been designed to provide reasonable, rather than absolute assurance that the financial statement will be free from material misstatement.

This report is designed to meet the needs of a wide range of financial statement readers, and is presented in three sections.

The **Introductory Section** consists of this transmittal letter, a table of contents, a list of the City's principal elected and appointed officials, an organizational chart.

The **Financial Section** consists of the Independent Auditor's Report completed by Henjes, Conner & Williams, P.C., Management's Discussion and Analysis, Government Wide Financial Statements, the Fund Financial Statements, Notes to the Financial Statements, and Other Required Combining and Supplemental Information.

The **Statistical Section**, which is unaudited, consists of selected financial and demographic information for ten years, generally presented on a multi-year basis. This section is intended to offer the reader a better overall picture of the financial and economic trends of the City of Onawa.

GAAP require that management provide an introduction, overview and analysis to accompany the basic financial statement, in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is intended to complement MD&A, found immediately following the report of the City's independent auditors, and should be read in conjunction therewith. State statutes and the City Code require an annual audit by independent certified public accountants to provide reasonable assurance that the information in the CAFR can be relied upon. The auditors' report is included in the financial section of the report.

PROFILE OF THE CITY OF ONAWA

The City of Onawa was incorporated in 1859 under the provisions of the Iowa State Legislature. It is located in Monona County on Interstate 29 about 35 miles south of Sioux City, Iowa and 60 miles north of Omaha, Nebraska on the western edge of Iowa. The population is approximately 3100.

The City of Onawa operates under a Mayor-council form of government. One council member is elected from each of the City's four wards and two are elected at-large. The City administrator is responsible for the day-to-day management of the City. All departments and department directors report to the City Administrator, with the exception of the Library Director who is supervised by an appointed Board of Trustees.

FINANCIAL INFORMATION

The City of Onawa maintains an internal control structure designed to provide reasonable, but not absolute assurance that the assets of the City are protected from loss, theft, or fraud and that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles (GAAP). The requirement for reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

In addition, the City recognizes the importance of leadership from management in these controls. The City Council has adopted a personnel policy that provides guidance as to certain elements of the internal control structure. The employees are updated on changes to these ethics and personnel policies to stress that internal control are an important element of the public's trust. The City has incorporated the personnel policy in the training of all employees and elected officials.

The foundation of the City's financial planning and control is the annual budget. The budget process includes sessions with staff, management, and the City Council. To ensure compliance with legal budgetary controls, the City Council and management receive monthly reports comparing budgeted amounts to actual expenditures. The City Council may make additional appropriations during the year for unanticipated revenues or capital projects which were not completed in the prior year. Budget-to-actual comparisons by fund are provided in the fund subsection of this report for all funds requiring an appropriated annual budget, and summarized in the notes to the financial statements.

State laws require audits for cities such as Onawa to be conducted by the auditor of state or by certified public accountants. In addition to meeting state requirements, the audit must meet the requirements of the federal Single Audit Act of 1984, and the Single Audit Act amendments of 1996 which substantially revised various provisions of the 1984 Act, and the related U.S. Office of Management and Budget's Circular A-133. An audit is conducted annually in accordance with generally accepted auditing standards and the standards set forth in the General Accounting Office's Government Auditing Standards. It must examine, among other things, the financial condition and resources of the City, and accuracy of the City's accounts and reports. The audit report is contained the Financial Section which follows.

FACTORS AFFECTING FINANCIAL CONDITION

Local Economy. The City of Onawa is the largest City in Monona County, and also the County Seat. Onawa offers a convenient small town atmosphere while being only a 30 minute drive to a large metropolitan area.

The City's downtown as well as other areas of town continue to see improvements to buildings through the grant program established several years ago. The program gives a business that qualifies and spends money to remodel or improve the exterior of their building a \$2,500 forgivable grant and a \$2,500 loan from the Community Foundation.

The City of Onawa completed the construction of a 2.3 million dollar addition to the Onawa Public Library during the fiscal year ended June 30, 2005.

Local health care continues to improve with the Burgess Health Center started a new construction project of approximately \$10 million in 2005. This project will add additional beds to the center as well as space to several departments to offer the residents of Onawa access to the best health care.

Long-term Financial Planning. The City of Onawa operates with a cash and investment pool concept, whereby funds not individually invested to the credit of a particular fund are invested to the credit of the General Fund. This is consistent with state law, which provides that with the exception of bond covenants and local ordinances that require investments by fund, investments can be pooled and invested to the credit of the General Fund.

It is the policy of the City to invest public funds in a manner which will provide the maximum security, meet daily cash flow demands, and provide the highest investment return while conforming to all state and local statutes governing the investment of public funds.

The City may invest in any of the securities identified as eligible investments defined in the City of Onawa Investment Policy. In general these consist of interest bearing savings accounts, certificates of deposits, United States Treasury Notes and Bonds, Iowa Public Agency Investment Trust, and government sponsored securities.

Risk Management. The City also manages medical, dental, and vision insurance for its employees via a risk-retention plan administered by a third party administrator. Costs of the program include medical benefits, administration fees, and premiums for stop-loss coverage with limits of \$20,000 per covered employee per year and 125% of expected claims for the year for the City as a whole. The City continues to analyze the insurance market, and educate employees to control rising health care costs. An annual actuarial study provides analysis and information to help the City comply with local and state requirements.

The City is also exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductible and claims in the excess of coverage limitations.

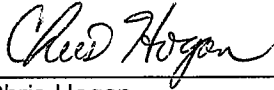
Pension Benefits. All permanent City employees are covered by one of two pension plans. Most uniformed employees are included in the Municipal Fire and Police Retirement System of Iowa (MFPRI), which is a cost-sharing, defined benefit plan, administered by a Board of Trustees appointed by the State of Iowa. All other eligible City employees are covered by the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing, defined benefit plan administered by the State of Iowa.

The City of Onawa does not provide postretirement health, dental, or vision care benefits for any retirees.

Awards and Acknowledgments. The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Onawa for its comprehensive annual financial report (CAFR) for the year ended June 30, 2005. In order to receive this award, the City must publish an easily readable and efficiently organized CAFR. The report must also satisfy both generally accepted accounting principles and applicable legal requirements. The award is valid for one year only. The City is submitting the 2006 annual financial report to GFOA for review to determine its eligibility for an award.

The preparation of this report could not have been accomplished without the support and dedication of the entire staff of the finance and administrative departments. Appreciation is also expressed to the mayor and City council for their support and interest in the financial operations of the City in a responsible and progressive manner.

Respectfully submitted,

A handwritten signature in cursive script, reading "Chris Hogan".

Chris Hogan
City Clerk

A handwritten signature in cursive script, reading "Terry Christensen".

Terry Christensen
Deputy Clerk

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Onawa
Iowa

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2005

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



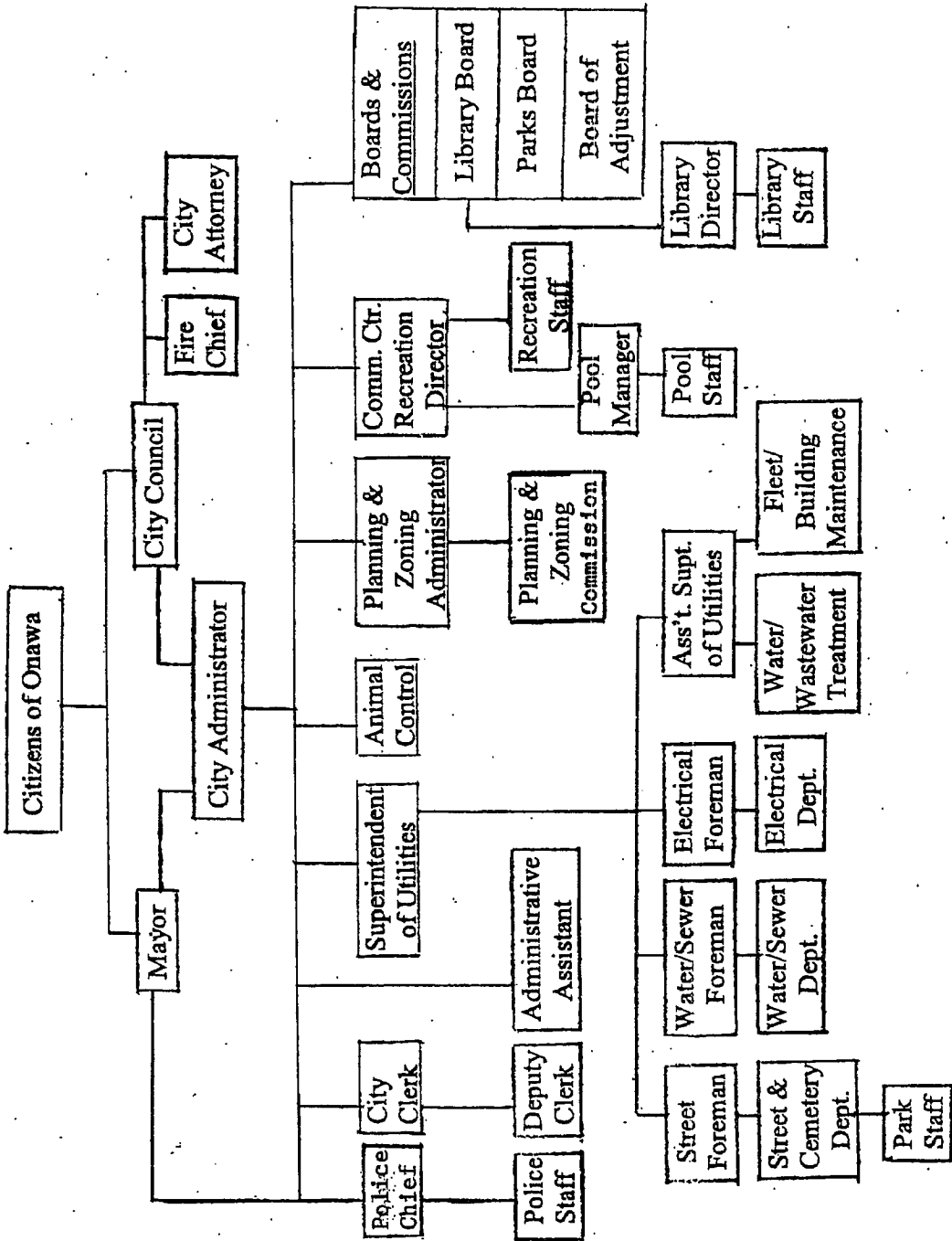
A handwritten signature in black ink, appearing to read "Randy Hawn".

President

A handwritten signature in black ink, appearing to read "Jeffrey R. Emer".

Executive Director

CITY OF ONAWA ORGANIZATIONAL CHART



CITY OF ONAWA, IOWA

CITY OFFICIALS

JUNE 30, 2006

ELECTED CITY OFFICERS

<u>Name</u>	<u>Title</u>
Tim Peters – resigned 6/28/05	Mayor
Rebecca Tanner – elected 11/18/05	Mayor
Neal Leapley – appointed 7/26/05 office ended 11/18/05	Mayor
Dennis Nelson – appointed 8/23/05 elected 11/2005	Mayor Protem
Lonnie Campbell	Council Member
Tim Coyle	Council Member
Brett Ewing	Council Member
Dawn Cass	Council Member
Dick Schlitter – appointed 2/22/05, elected 11/2005	Council Member

APPOINTED CITY OFFICERS

Jim Hunt	City Administrator
Chris Hogan	City Clerk
Mike Schmiedt	Attorney
Sundquist Engineering	City Engineer

CITY OF ONAWA, IOWA

APPOINTED BOARDS AND COMMISSIONS

JUNE 30, 2006

ONAWA PARKS AND PLAYGROUNDS

Jill Hausman
Jon Singlestad – resigned 12/31/05
Mike Richardson
Doug Kuhlman

LIBRARY TRUSTEES

Ann Coberly
Dianne Kelley
William Wonder
Terry Virtue
Geri Johnson 7/1/06

PLANNING AND ZONING BOARD

Darrell Geib
Roger Hansen
Two Vacant
Ken Wingert
Bob Lesenyie
Gloria Maxwell
Richard Merritt

BOARD OF ADJUSTMENTS

Bert Seitzinger
Joe Scurlock
Randy Cass
Newt McCunn resigned 1/1/06
Larry Duval
Richard Driver
Bill Gantz

HEALTH OFFICER

Family Medicine Clinic

FIRE CHIEF

Jeff Sander

WIMECA BOARD DIRECTOR

Wayne Gries

HOUSING AUTHORITY COMMITTEE

Mike Carpenter

LOW RENT HOUSING

Lounell Olson
Ruth Johnson
Jerry Laffey
Myron Johnson
Dorothy Sorenson

STREET TREE COMMITTEE

Larry Duval
Ano Wilkins
Reta Benson
Brett Ewing

LAW ENFORCEMENT AGENCY

Brett Ewing
Rebecca Tanner
Dawn Cass, Alternate

AIRPORT ADVISORY COMMITTEE

Rebecca Tanner
Baynard Willey
Jeff Sander
Ed Weiner
Dick Schlitter
Dawn Cass

SIMPCO

Wayne Gries
Rebecca Tanner
Lonnie Campbell, Alternate

PERSONNEL COMMITTEE

Brett Ewing
Gary Addy
Vince Phillips
Tim Coyle
Jim Hunt
Dawn Cass
Jeff Sander

CITY OF ONAWA, IOWA
COUNCIL STANDING COMMITTEES
JUNE 30, 2006

FINANCE

Lonnie Campbell
Dennis Nelson
Tim Coyle

GOVERNMENT AFFAIRS

Lonnie Campbell
Brett Ewing
Rebecca Tanner

CITIZEN RELATIONS

Dennis Nelson
Dick Schlitter
Dawn Cass

COMMUNITY PROTECTION/SERVICES

Dick Schlitter
Dennis Nelson
Lonnie Campbell

UTILITIES/INFRASTRUCTURE

Brett Ewing
Dennis Nelson
Lonnie Campbell

CITY OF ONAWA, IOWA

CITY PERSONNEL

JUNE 30, 2006

ADMINISTRATION

Jim Hunt
Chris Hogan
Terry Christensen
Elaine Miller

City Administrator
City Clerk
Deputy Clerk
Administrative Assistant

POLICE DEPARTMENT

Gary Addy
Joe Farrens
Jon Pinkelman
James Fouts
Lee Kirkpatrick, Jr.
Kyle Tank

Police Chief
Assistant Chief
Patrolman
Patrolman
Patrolman
Patrolman

STREETS AND CEMETERY

Randy Larson
Jerry Bellis
Larry Warren
Dave Fender

Superintendent Street & Sexton
Street & Cemetery Crewman
Street & Cemetery Crewman
Street & Cemetery Crewman

MUNICIPAL BUILDINGS

Rod Ulven

Maintenance Shop Supervisor

UTILITIES

Jeff Sander
Roger Gries
Vincent Phillips
Robert Walker
Curtis Richardson
Jon Towne
Jim Kelly
George Carrier
Carl Lamb

Superintendent of Utilities
Assistant Superintendent
Electric Foreman
Electric Crewman
Electric Crewman
Waste Water Treatment
Water Dist. Foreman
Water Crewman
Water Crewman

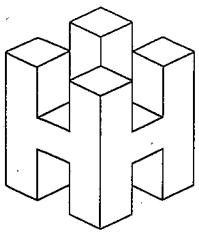
LIBRARY

Lori Beck
Chris Zink
Jo Keitges
Ann Crawford
Jessica Stanislav
Sally Towne

Librarian
Part-time Clerk
Part-time Clerk
Part-time Clerk
Part-time Clerk
Part-time Clerk

FINANCIAL SECTION

CITY OF ONAWA, IOWA



HENJES, CONNER &
WILLIAMS, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

800 FRANCES BUILDING
505 FIFTH STREET
P.O. BOX 1528
SIOUX CITY, IOWA 51102

PH. (712) 277-3931
(800) 274-3931
FAX (712) 233-3431

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Members of the City Council
City of Onawa, Iowa

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the CITY OF ONAWA, IOWA, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Onawa's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Onawa at June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated September 20, 2006, on our consideration of the City of Onawa's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 13 through 20 and 52 through 56 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Onawa's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the two years ended June 30, 2005 (neither of which are presented herein) and expressed unqualified opinions on those financial statements. The financial statements for the year ended June 30, 2003, (which are not presented herein) were previously audited by other auditors, who expressed an unqualified opinion on those financial statements. The introductory section, supplemental information, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Hexjes, Conner + Williams, P.C.
Certified Public Accountants

Sioux City, Iowa
September 20, 2006

Management Discussion and Analysis

June 30, 2006

This discussion and analysis of the City of Onawa financial performance provides an overview of the City's financial activities for the fiscal year ending June 30, 2006. We encourage the readers to consider the information presented here in conjunction with the additional information furnished in our letter of transmittal on page 1 and the City's financial statements that follow this report.

Financial Highlights:

- The assets of the City of Onawa exceeded liabilities at June 30, 2006, by \$13,663,945. Of this amount, \$6,190,011 is unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's net assets increased by \$707,513 during the year. Of this amount, the assets of our Governmental Activities increased \$572,558 and the assets of our Business Activities increased \$134,955.
- The largest factor in the increase in net assets was the amount by which capital outlays exceeded depreciation in the current period. In fiscal year 2006, that excess was \$223,635.
- The City's long-term debt decreased due to the scheduled retirement of long-term debt. Outstanding General Obligation debt totals \$1,845,000 of which \$505,000 was refinanced during the fiscal year to achieve lower interest rates.

OVERVIEW OF THE FINANCIAL STATEMENTS

In addition to the Management Discussion and Analysis, this annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements tell how these services were financed in the short term, as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. The remaining statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government. An additional part of the basic financial statements are the Notes to the Financial Statements. This report also contains other supplementary information in addition to the basic financial statements.

REPORTING THE CITY AS A WHOLE

The Statement of Net Assets and the Statement of Activities

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

One of the most important questions asked about the City's finances is *"Is the City of Onawa in a better financial position at the end of this fiscal year, compared to last year?"* The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is very similar to the method of accounting used by most private-sector companies. These two statements report the City's net assets, which is the difference between assets and liabilities, as one way to measure the City's financial health, or financial position. Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. Additional factors, such as

changes in the City's property tax base and sales tax collections and condition of the City's infrastructure, are also important in making this determination.

In the Statement of Net Assets and the Statement of Activities, we have divided the City into two kinds of activities:

- **Governmental Activities** – Most of the City's basic services are reported here, such as Police, Fire, Public Works and Parks departments, and general administration. Property taxes and state and federal grants finance most of these activities.
- **Business Type Activities** – The City charges fees to customers to cover the cost of these services. Included here are the City Electrical, Water and Sewer.

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds – not the City as a whole. Some funds are required to be established by State law or by bond requirements. The City Council also established funds to control and manage money for particular purposes (such as construction projects) and to show that it is properly using certain revenues (such as Sales Tax Revenues). The City has the following types of funds:

- **Governmental Funds** – Most of the City's basic services are included in Governmental Funds, which focus on how money moves into and out of these funds and the balances left at year-end that are available for spending. These funds are reported using the "modified accrual basis" of accounting, which measures cash and all other financial assets that can readily be converted to cash. The Governmental Fund Statements provide a detailed short-term view of the City's general governmental operations and basic services it provides. Governmental Fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance City programs. We describe the relationship between Governmental Activities (reported in the Statement of Net Assets and the Statement of Activities) and Governmental Funds in a reconciliation following each Governmental Fund financial statement.
- **Proprietary Funds** – When the City charges customers for the service it provides, these services are generally reported in Proprietary Funds. Proprietary Funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. The major difference between the Proprietary Funds report and the Business Type Activities we report in the government-wide statements is the detail and additional information, such as cash flows, provided in the Proprietary Funds report.

THE CITY AS A WHOLE

As stated earlier, net assets may serve over time as a useful indicator of a government's financial position. The largest part of the City's net assets reflects its investment in capital assets (land, buildings and improvements, and equipment), less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from the other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

For the year ended June 30, 2006, net assets changed as follows:

	Governmental	Business-	6-30-06	6-30-05
	Activities	Type	Total	Total
	Activities	Activities	Total	Total
Beginning Net Assets	\$ 5,348,671	\$ 7,607,761	\$ 12,956,432	\$ 11,797,590
Increase in Net Assets	<u>572,558</u>	<u>134,955</u>	<u>707,513</u>	<u>1,158,842</u>
Ending Net Assets	<u>\$ 5,921,229</u>	<u>\$ 7,742,716</u>	<u>\$ 13,663,945</u>	<u>\$ 12,956,432</u>

This summary reflects an increase of 11% for the Governmental Activities and an increase of 2% in the Business-Type Activities. Net assets of the Governmental Activities accounted for 81% of the growth in net assets.

Total revenue reported in Fiscal 2006 was \$4,894,753. The following table breaks down revenues collected for General Governmental Activities and Business-Type Activities:

	General	Business-	6-30-06	6-30-05
	Governmental	Type	Total	Total
	Activities	Activities	Total	Total
Program Revenues:				
Charges for Services	\$76,924	\$2,603,507	\$2,680,431	\$2,502,800
Operating Grants and Contributions	28,672	-	28,672	36,352
Capital Grants and Contributions	<u>147,895</u>	<u>-</u>	<u>147,895</u>	<u>240,342</u>
Total Program Revenues	253,491	2,603,507	2,856,998	2,779,494
General Revenues & Interfund Transfers:				
Property Taxes	1,059,464	-	1,059,464	1,119,067
License and Permits	26,446	-	26,446	28,813
Local Option Sales Tax	169,515	-	169,515	164,447
Fines and Forfeitures	14,848	-	14,848	8,066
Special Assessments	40,292	-	40,292	99,747
Interest	95,990	75,277	171,267	109,300
General Intergovernmental Revenues	293,642	-	293,642	333,136
Contributions	3,350	-	3,350	2,079
Sale of Merchandise	-	26,583	26,583	29,573
Payment in Lieu of Taxes	86,578	-	86,578	87,654
Assets acquired through annexation	-	-	-	12,000
Miscellaneous	\$ 34,490	\$ 111,280	\$ 145,770	\$ 218,471
Interfund Transfers	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

Total General Revenues &

Interfund Transfers	<u>\$ 1,824,615</u>	<u>\$ 213,140</u>	<u>\$ 2,037,755</u>	<u>\$ 2,212,353</u>
Total Revenues & Interfund Transfers	<u>\$ 2,078,106</u>	<u>\$ 2,816,647</u>	<u>\$ 4,894,753</u>	<u>\$ 4,991,847</u>

Program revenues totaled \$2,856,998 for fiscal year 2006. Governmental Activities provided \$253,491 and Business-Type Activities provided \$2,603,507. Revenue collected for Charges for Services during fiscal year 2006 was \$2,680,431, accounting for 94% of the total program revenues.

General Revenues for fiscal year 2006 totaled \$2,037,755. Governmental Activities provided \$1,824,615 and Business-Type Activities provided \$213,140. Property Tax Revenues for fiscal year 2006 totaled \$1,059,464, accounting for 52% of General Revenues.

Expenditures for Fiscal 2006 totaled \$4,187,240. Expenditures for General Governmental Activities totaled \$1,505,548, accounting for 36% of total expenditures. Business-Type Activity expenditures totaled \$2,681,692, for 64% of the total.

The following table shows total expenditures by Function/Program:

<u>Program Level</u>	<u>General Governmental Activities</u>	<u>Business- Type Activities</u>	<u>2006 Total</u>	<u>2005 Total</u>
Public Safety	\$ 400,200	-	\$ 400,200	\$ 440,457
Public Works	208,575	-	208,575	173,148
Culture and Recreation	359,885	-	359,885	334,429
Community and Economic Development	83,261	-	83,261	57,791
General Government	147,286	-	147,286	143,547
Debt Service	84,230	-	84,230	40,511
Depreciation	222,111	-	222,111	158,078
Electric System	-	\$1,766,956	1,766,956	1,593,206
Water System	-	376,228	376,228	361,903
Sewer System	-	529,236	529,236	520,473
Internal Service	-	9,272	9,272	9,462
Total Expenditures	<u>\$ 1,505,548</u>	<u>\$ 2,681,692</u>	<u>\$ 4,187,240</u>	<u>\$ 3,833,005</u>

The following table shows the activities included within each program level:

<u>Program Level</u>	<u>Activity</u>
Public Safety	Individual & Community Protection, Physical Health
Public Works	Roadway Construction, Airport Operations, Street Lighting, Transportation Services

Culture and Recreation	Education & Culture, Leisure Time Opportunities
Community and Economic Development	Economic Development, Community Beautification, Planning & Zoning
General Government.....	Administration, Support Services
Debt Service.....	Payment of Interest
Electric System	Operation of Electrical System
Sewer System	Operation of the Waste Water Treatment Plant/Collection System
Water System.....	Operation of Water Treatment Plant/Supply Distribution System
Internal Service	Payment of Rise Insurance and Health Insurance Deductible

Governmental Activities

To aid in the understanding of the Statement of Activities, some additional explanation is given. Of particular interest is the format that is significantly different than a typical Statement of Revenues, Expenses and Changes in Fund Balance. Please note that the expenses are listed in the first column, with revenues from that particular program reported to the right. The result is a Net (Expense) Revenue calculation. This format highlights the respective financial burden that each of the functions place on the taxpayers. For example, for Culture and Recreation, the City spent \$359,885 and received \$76,924 in revenue, thus leaving a cost to the taxpayer of \$282,961 to be funded by various methods. The new format also identifies how much each function draws from general revenues or is self-financing through fees or grants. Some of the individual line item revenues reported for each function are:

Taxes	Fines and Forfeits
Special Assessments	Contributions
Licenses and Permits	Refunds/Reimbursements
Intergovernmental Revenue	Grants
Charges for Services	

The total cost of governmental activities this year was \$1,505,548. Of these costs, \$76,924 was paid by those who directly benefited from the programs. Costs paid by other governments and organizations that subsidized certain programs with grants and contribution was \$176,567, leaving a Net Expense of \$1,252,057 for Governmental Activities. These expenses of \$1,252,057 were covered with tax revenues, interest and other general revenues. The Statement of Activities in the financial statements provides further detail. The Net (Expense) Revenue by Governmental Activity is shown in the following table:

Functions/Programs	Net (Expense) Revenue	
	6/30/2006	6/30/2005
Governmental Activities:		
Public Safety	\$ (371,528)	\$(411,605)
Public Works	(208,575)	(173,148)
Culture and Recreation	(282,961)	(242,591)
Community and Economic Development	(83,261)	(57,791)
General Government	(147,286)	(143,547)
Capital Projects	147,895	240,342
Depreciation	(222,111)	(158,078)
Debt Service	<u>\$(84,230)</u>	<u>\$(40,511)</u>

Total Net (Expense) Revenue

Governmental Activities	\$(1,252,057)	\$(986,929)
General Revenues & Interfund Transfers	<u>1,824,615</u>	<u>2,027,395</u>

Change in Net Assets \$ 572,558 \$ 1,040,466

Total resources available during the year to finance governmental operations were \$7,426,867, consisting of Net Assets at July 1, 2005 of \$5,348,671, Program Revenues of \$253,491 and General Revenues of \$1,824,615. Total Governmental Activities during the year expended \$1,505,548; thus, Net Assets were increased by \$572,558 to \$5,921,229.

Business Type Activities

Business Type Activities increased the City's net assets by \$134,955 accounting for 19% of the growth in the City's net assets.

The cost of all Proprietary Activities this year was \$2,681,692. As shown in the Statement of Activities, the amounts paid by users of the systems was \$2,603,507, resulting in total Net Expenses for Business Type Activities of \$78,185. The Net (Expense) Revenue by Business Type Activity is shown in the following table:

Business-Type Activities	2006 Net (Expense) Revenue	2005 Net (Expense) Revenue
Electric System	\$ 17,167	\$ 60,878
Water System	(67,349)	(75,534)
Sewer System	(33,731)	(56,964)
Internal Service	<u>5,728</u>	<u>5,038</u>
Total Net (Expense) Revenue		
Business-Type Activities	(78,185)	(66,582)
General Revenues	<u>213,140</u>	<u>184,958</u>
Change in Net Assets	<u>\$ 134,955</u>	<u>\$ 118,376</u>

Total resources available during the year to finance Proprietary Fund activities were \$10,424,408, consisting of Net Assets at July 1, 2005 of \$7,607,761, Program Revenues of \$2,603,507 and General Revenues of \$213,140. Total Proprietary Fund Activities during the year expended \$2,681,692; thus Net Assets were increased by \$134,955 to \$7,742,716.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing financing requirements. Unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of a fiscal

year. The City's Governmental Funds reported combined ending fund balances of \$1,611,190. The combined Governmental Funds balance increased \$170,964 from the prior year.

The General Fund is the primary operating fund of the City. During the year, revenue exceeded expenditures in the General Fund by \$99,657.

GENERAL FUND BUDGETARY HIGHLIGHTS

The fiscal year 2006 original (adopted) General Fund amount was \$1,182,545 with one amendment amending to \$1,204,545.

The following table shows the General Fund budget variances by program structure:

Expenditures	Budget Original	Budget Amended	Actual	Variance
Public Safety	\$ 501,018	\$ 521,018	\$ 449,045	\$ 71,973
Public Works	21,175	21,175	20,842	333
Culture and Recreation	451,397	451,397	403,074	48,323
Community and Economic Development	-	2,000	1,406	594
General Government	<u>208,955</u>	<u>208,955</u>	<u>135,112</u>	<u>73,843</u>
Total Expenditures	<u>\$ 1,182,545</u>	<u>\$ 1,204,545</u>	<u>\$ 1,009,479</u>	<u>\$ 195,066</u>

CAPITAL ASSETS

The City's investment in capital assets, including land, buildings and improvements and equipment represents the value of the resources utilized to provide services to our citizens. The investment in capital assets as of June 30, 2006, was \$7,357,609 (net of accumulated depreciation and outstanding financings).

The gross additions to capital assets for Fiscal 2006 are as follows:

	Governmental Activities	Business- Type Activities	6-30-06 Total	6-30-05 Total
Infrastructure	-	-	-	\$ 20,901
Buildings	\$ 8,781	\$ 2,293	\$ 11,074	-
Improvements – Other than Buildings	-	185,727	185,727	570,189
Equipment	167,107	11,425	178,532	202,198
Construction in Progress	<u>269,858</u>	<u>-</u>	<u>269,858</u>	<u>2,020,379</u>
Total Gross Additions	<u>\$ 445,746</u>	<u>\$ 199,445</u>	<u>\$ 645,191</u>	<u>\$ 2,813,667</u>

Construction in Progress for governmental activities consisted of costs associated with the capital projects in the Public Works Program.

See Note 6 to the financial statements for more information on the City's capital assets.

DEBT ADMINISTRATION

At year-end the City had \$1,845,000 of debt outstanding. This is a decrease of \$140,000 from the prior year due to the retirement of General Obligation Bonds of \$645,000 of which \$505,000 debt was issued to refinance the existing debt.

Debt administration is on track, with over 80% of all City debt repaid within the next 10 years. This rapid repayment, when used with TIF, has allowed the City to maintain our good rating. This reflects well on our community.

The City continues to operate well under State debt capacity limitations. The State limits the amount of General Obligation Debt outstanding to 5% of the assessed value of all taxable property in the community. Thus, our debt capacity is \$ 4,817,537. With outstanding General Obligation Debt applicable to this limit of \$1,845,000, we are utilizing less than 38% of this limit. More detailed information on debt administration is provided in Note 7 of the financial statements.

ECONOMIC FACTORS

The City of Onawa continues to work hard to maintain a positive approach to growth and development. Continued improvement in downtown façade and the addition to the library continues to make a positive effect on the City's image.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Finance Department at 712-433-1181.

CITY OF ONAWA, IOWA

CITY OF ONAWA, IOWA
STATEMENT OF NET ASSETS
JUNE 30, 2006

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and Cash Equivalents	\$ 309,352	\$ 602,116	\$ 911,468
Investments	870,801	2,007,237	2,878,038
Receivables (Net, where applicable, of allowance for uncollectibles)			
Accounts	-	245,964	245,964
Taxes	42,909	-	42,909
Subsequent Year Taxes	1,113,747	-	1,113,747
Accrued Interest	18,781	24,901	43,682
Other	1,212	9,800	11,012
Special Assessments	16,880	-	16,880
Subsequent Year Special Assessments	145,212	-	145,212
Due from Other Governments - Note 4	125,779	630	126,409
Inventories	-	288,137	288,137
Prepaid Assets	56,746	24,424	81,170
Investment in WIMECA - Note 13	-	1,353,973	1,353,973
Restricted Assets:			
Cash and Cash Equivalents	-	42,162	42,162
Temporary Cash Investments Designated for Equipment	562,008	147,425	709,433
Bond Issue Cost - Net of Amortization	13,323	-	13,323
Bond Discount - Net of Amortization	21,756	-	21,756
Land - Note 6	437,239	9,050	446,289
Construction in Progress - Note 6	77,877	-	77,877
Infrastructure, Property and Equipment, Net of Accumulated Depreciation - Note 6	5,413,009	3,265,434	8,678,443
Total Assets	9,226,631	8,021,253	17,247,884
LIABILITIES			
Accounts Payable	272,794	161,000	433,794
Accrued Wages and Compensated Absences	63,658	73,401	137,059
Accrued Expenses	10,203	1,974	12,177
Deferred Revenue - Subsequent Year Taxes	1,113,747	-	1,113,747
Payables from Restricted Assets:			
Customer Deposits	-	42,162	42,162
Noncurrent Liabilities:			
Due within one year:			
Revenue Bonds Payable	150,000	-	150,000
Due in more than one year:			
General Obligation Bonds - Note 7	1,695,000	-	1,695,000
Total Liabilities	3,305,402	278,537	3,583,939
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	4,083,125	3,274,484	7,357,609
Restricted for:			
Endowments:			
Nonexpendable	116,325	-	116,325
Unrestricted			
Designated for Equipment	511,418	147,425	658,843
Unreserved - Undesignated	1,210,361	4,320,807	5,531,168
Total Net Assets	\$ 5,921,229	\$ 7,742,716	\$ 13,663,945

See Accompanying Notes to Financial Statements

CITY OF ONAWA, IOWA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
Public Safety	\$ 400,200	\$ -	\$ 28,672	\$ -
Public Works	208,575	-	-	-
Culture and Recreation	359,885	76,924	-	-
Community and Economic Development	83,261	-	-	-
General Government	147,286	-	-	-
Capital Projects	-	-	-	147,895
Depreciation expense	222,111	-	-	-
Debt Service	84,230	-	-	-
Total governmental activities	1,505,548	76,924	28,672	147,895
Business-Type Activities:				
Electric System	1,766,956	1,784,123		
Water System	376,228	308,879		
Sewer System	529,236	495,505		
Internal Service	9,272	15,000		
Total Business-Type Activities:	2,681,692	2,603,507	-	-
Total Primary Government	\$ 4,187,240	\$ 2,680,431	\$ 28,672	\$ 147,895

General Revenues:

- Property taxes
- Licenses and Permits
- Local Option Sales Tax
- Fines and Forfeits
- Special Assessments
- Interest
- General Intergovernmental Revenues
- Contributions
- Sale of Merchandise
- Payment in Lieu of Taxes
- Miscellaneous
- Proceeds from Bond Issue
- Interfund Transfers
- Total general revenues and transfers
- Change in net assets
- Net assets - beginning
- Net assets - ending

See Accompanying Notes to Financial Statements

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
\$ (371,528)		\$ (371,528)
(208,575)		(208,575)
(282,961)		(282,961)
(83,261)		(83,261)
(147,286)		(147,286)
147,895		147,895
(222,111)		(222,111)
(84,230)		(84,230)
<u>(1,252,057)</u>		<u>(1,252,057)</u>
	\$ 17,167	17,167
	(67,349)	(67,349)
	(33,731)	(33,731)
	5,728	5,728
	<u>(78,185)</u>	<u>(78,185)</u>
<u>(1,252,057)</u>	<u>(78,185)</u>	<u>(1,330,242)</u>
1,059,464	-	1,059,464
26,446	-	26,446
169,515	-	169,515
14,848	-	14,848
40,292	-	40,292
95,990	75,277	171,267
293,642	-	293,642
3,350	-	3,350
-	26,583	26,583
86,578	-	86,578
34,490	111,280	145,770
-	-	-
-	-	-
<u>1,824,615</u>	<u>213,140</u>	<u>2,037,755</u>
572,558	134,955	707,513
5,348,671	7,607,761	12,956,432
<u>\$ 5,921,229</u>	<u>\$ 7,742,716</u>	<u>\$ 13,663,945</u>

CITY OF ONAWA, IOWA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	General	TIF	Road Use Tax
Assets			
Cash and Pooled Investments	\$ 225,310	-	\$ 32,181
Investments	793,080	-	-
Receivables (Net, where applicable, of allowance for uncollectibles)			
Taxes	17,127	\$ 17,834	-
Subsequent Year Taxes	463,548	432,080	-
Accrued Interest	13,850	-	-
Other	1,212	-	-
Special Assessments	9,174	-	-
Subsequent Year Special Assessments	45,869	-	-
Due from Other Funds	3,387	-	626,428
Due from Other Governmental Agencies	-	-	20,154
Temporary Cash Investments Designated for Equipment	511,418	-	50,590
Total Assets	2,083,975	449,914	729,353
Liabilities and Fund Balances			
Liabilities:			
Accounts Payable	19,879	3,606	20,091
Accrued Wages and Compensated Absences	46,837	-	16,821
Accrued Expenses	80	-	-
Due to Other Funds	-	481,700	-
Deferred Revenue - Subsequent Year Taxes	463,548	432,080	-
Deferred Revenue - Subsequent Year Assessments	45,869	-	-
Total Liabilities	576,213	917,386	36,912
Fund Balances:			
Reserved for:			
Endowment	-	-	-
Unreserved (Deficit)	1,507,762	(467,472)	692,441
Total Fund Balances (Deficits)	1,507,762	(467,472)	692,441
Total Liabilities and Equity	\$ 2,083,975	\$ 449,914	\$ 729,353

See Accompanying Notes to Financial Statements

Local Option Sales Tax	Debt Service	Library Expansion	2004 Street Capital Project	2005 Street Capital Project	Other Governmental Funds	Total Governmental Funds
\$ 15,331	-	-	-	-	\$ 36,530	\$ 309,352
-	-	-	-	-	77,721	870,801
-	\$ 5,230	-	-	-	2,718	42,909
-	135,955	-	-	-	82,164	1,113,747
-	-	-	\$ 1,889	-	3,042	18,781
-	-	-	-	-	-	1,212
-	-	-	4,787	-	2,919	16,880
-	-	-	37,317	\$ 43,205	18,821	145,212
430,000	-	-	-	-	-	1,059,815
13,975	-	71,888	-	19,762	-	125,779
-	-	-	-	-	-	562,008
459,306	141,185	71,888	43,993	62,967	223,915	4,266,496
12	-	\$ 162,537	-	25,575	41,094	272,794
-	-	-	-	-	-	63,658
-	-	-	-	-	-	80
-	556	97,609	144,600	196,117	139,233	1,059,815
-	135,955	-	-	-	82,164	1,113,747
-	-	-	37,317	43,205	18,821	145,212
12	136,511	260,146	181,917	264,897	281,312	2,655,306
-	-	-	-	-	116,325	116,325
459,294	4,674	(188,258)	(137,924)	(201,930)	(173,722)	1,494,865
459,294	4,674	\$(188,258)	(137,924)	(201,930)	(57,397)	1,611,190
\$ 459,306	\$ 141,185	71,888	\$ 43,993	\$ 62,967	\$ 223,915	\$ 4,266,496

CITY OF ONAWA, IOWA

CITY OF ONAWA, IOWA
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2006

Amounts reported for Governmental Activities in the Statement of Net assets are different because:

Total Fund Balance - Governmental Funds (page 28)	\$	1,611,190
Infrastructure, property, and equipment used in governmental activities are not financial resources and, therefore, are not reported in the funds		5,928,125
Deferred assessments that provide current financial resources for governmental activities		145,212
Accrued expenses from the balance sheet that require current financial resources for governmental activities		(10,123)
Bond issue costs and Bond Discounts are reported in the governmental activities but are not reported in the funds as they do not provide current economic resources		35,079
Prepaid expenses are reported in the governmental activities but are not reported in the funds as they do not provide current economic resources		56,746
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds		<u>(1,845,000)</u>
Total Net Assets - Governmental Activities (page 21)	\$	<u><u>5,921,229</u></u>

See Accompanying Notes to Financial Statements

CITY OF ONAWA, IOWA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2006

	General	TIF	Road Use Tax
Revenue:			
Taxes	\$ 497,807	\$ 340,899 ✓	-
Special Assessments	11,139	-	-
Licenses and Permits	26,446	-	-
Intergovernmental Revenue	34,807	-	\$ 258,835
Charges for Services	76,924	-	-
Fines and Forfeits	14,848	-	-
Contributions	28,672	2,000	-
Proceeds from Sale of Bonds	-	-	-
Interest	81,416	-	-
Payment in Lieu of Taxes	86,578	-	-
Miscellaneous	33,172	-	1,318
Total Revenue	891,809	342,899	260,153
Expenditures:			
Public Safety	449,045	-	-
Public Works	20,842	-	259,388
Culture and Recreation	403,074	-	-
Community and Economic Development	1,406	73,515	-
General Government	135,112	-	-
Capital Projects	-	-	-
Debt Service			
Principal Retirements			-
Interest			-
Total Expenditures	1,009,479	73,515	259,388
Excess (deficiency) of revenues over expenditures	(117,670)	269,384	765
Other financing sources (uses):			
Transfers In	217,327	-	-
Transfers Out	-	(140,428)	-
Total other financing sources (uses)	217,327	(140,428)	-
Net Change in Fund Balance	99,657	128,956	765
Fund Balances (Deficit) beginning of year	1,408,105	(596,428)	691,676
Fund Balances (Deficit) End of Year	\$ 1,507,762	\$ (467,472)	\$ 692,441

See Accompanying Notes to Financial Statements

Local Option Sales Tax	Debt Service	Library Expansion	2004 Street Capital Project	2005 Street Capital Project	Other Governmental Funds	Total Governmental Funds
-	\$ 138,463	-	-	-	\$ 78,684	\$ 1,055,853
-	-	-	\$ 14,041	-	3,611	28,791
-	-	-	-	-	-	26,446
\$ 169,515	-	-	-	-	33,000	496,157
-	-	-	-	-	-	76,924
-	-	-	-	-	-	14,848
-	-	\$ 86,876	-	-	29,369	146,917
-	505,000	-	-	-	-	505,000
-	5,534	-	3,350	-	5,690	95,990
-	-	-	-	-	-	86,578
-	-	-	-	-	-	34,490
169,515✓	648,997	86,876	17,391		150,354	2,567,994
-	-	-	-	-	-	449,045
-	-	2,132	-	-	-	282,362
-	-	-	-	-	-	403,074
20,340	-	-	-	-	-	95,261
-	13,998	-	-	-	13,134	162,244
-	-	(72,238)	-	\$ 191,981	158,896	278,639
-	645,000	-	-	-	-	645,000
-	81,405	-	-	-	-	81,405
20,340	740,403	(70,106)	-	191,981	172,030	2,397,030
149,175	(91,406)	156,982	17,391	(191,981)	(21,676)	170,964
-	104,428	-	-	-	20,000	341,755
(120,000)	-	-	-	-	(81,327)	(341,755)
(120,000)	104,428	-	-	-	(61,327)	-
29,175	13,022	156,982	17,391	(191,981)	(83,003)	170,964
430,119	(8,348)	(345,240)	(155,315)	(9,949)	25,606	1,440,226
\$ 459,294	\$ 4,674	\$ (188,258)	\$ (137,924)	\$ (201,930)	\$ (57,397)	\$ 1,611,190

CITY OF ONAWA, IOWA

CITY OF ONAWA, IOWA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds (page 28)	\$ 170,964
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Governmental funds report capital outlays, including infrastructure, as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Capital outlays were exceeded by depreciation expense in the current year as follows:

Expenditures for capital assets	\$ 445,746	
Depreciation expense	<u>(222,111)</u>	223,635

Revenues reported in the funds that are not available to provide current financial resources	15,112
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Prepaid expenses are not reported in the governmental funds as it is not available to provide current financial resources	3,397
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Accrued interest expense that does not require current financial resources	(2,825)
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The effect of bond issuance costs and bond discounts when new debt is issued, whereas, these amounts are deferred and amortized in the Statement of Activities	11,561
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The repayment of the principal of bonded long-term debt consumes the current financial resources of governmental funds without affecting the net assets. The statement of activities does not reflect the payment of principal on bonded long-term debt. The principal paid on bonded long-term debt during the current year was:	<u>150,714</u>
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Change in net assets of governmental activities (page 23)	<u>\$ 572,558</u>
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See Accompanying Notes to Financial Statements

CITY OF ONAWA, IOWA
COMBINING STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	Business Type Activities	
	Electric System	Water System
ASSETS		
Cash and Cash Equivalents	\$ 370,655	\$ 61,305
Investments	1,592,308	208,419
Receivables (Net, where applicable, of allowance for uncollectibles)		
Accounts	164,763	33,140
Accrued Interest	20,317	442
Other	9,800	-
Due from Other Governmental Agencies	210	210
Inventories	236,824	51,172
Prepaid Assets	13,734	6,878
Investment in WIMECA	1,353,973	-
Restricted Assets:		
Cash and Cash Equivalents	42,162	-
Temporary Cash Investments Designated for Equipment	222	126,425
Land	-	-
Infrastructure, Property and Equipment, Net of Accumulated Depreciation	1,951,985	308,434
Total Assets	5,756,953	796,425
LIABILITIES		
Accounts Payable	123,896	14,808
Accrued Wages and Compensated Absences	31,014	21,720
Accrued Expenses	1,952	22
Payables from Restricted Assets:		
Customer Deposits	42,162	-
Total Liabilities	199,024	36,550
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	1,951,985	308,434
Unrestricted	3,605,944	451,441
Total Net Assets	\$ 5,557,929	\$ 759,875

See Accompanying Notes to Financial Statements

Business Type Activities		Business Type Activities	
Sewer System	Total	Internal Service	
\$ 72,462	\$ 504,422	\$ 97,694	
206,510	2,007,237	-	
48,061	245,964	-	
4,142	24,901	-	
-	9,800	-	
210	630	-	
141	288,137	-	
3,812	24,424	-	
-	1,353,973	-	
-	42,162	-	
20,778	147,425	-	
9,050	9,050	-	
1,005,015	3,265,434	-	
1,370,181	7,923,559	97,694	
22,296	161,000	-	
20,667	73,401	-	
-	1,974	-	
-	42,162	-	
42,963	278,537	-	
1,014,065	3,274,484	-	
313,153	4,370,538	97,694	
\$ 1,327,218	\$ 7,645,022	\$ 97,694	

CITY OF ONAWA, IOWA
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	Business Type Activities	
	Electric System	Water System
Operating Revenues:		
Charges for Services	\$ 1,784,123	\$ 308,879
Total Operating Revenue	<u>1,784,123</u>	<u>308,879</u>
Operating Expenses:		
Production	1,133,311	83,042
Distribution	439,647	176,770
Customer Accounts/Administration	88,705	61,662
Solid Waste	-	-
Depreciation	105,293	54,754
Deductibles	-	-
Total Operating Expenses	<u>1,766,956</u>	<u>376,228</u>
Operating Income (Loss)	17,167	(67,349)
Non-Operating Income (Expense):		
Interest Income	56,785	10,637
Sale of Merchandise	9,253	17,275
Equity in Net Income of WIMECA	80,035	-
WIMECA Member Charge Refund	19,017	-
Assets Acquired Through Annexation	-	-
Other Non-operating Revenues	10,726	1,502
Total Non-Operating Income (Expenses)	<u>175,816</u>	<u>29,414</u>
Income before Transfers	192,983	(37,935)
Transfers In	-	-
Transfers Out	<u>-</u>	<u>-</u>
Change in Net Assets	192,983	(37,935)
Net Assets - Beginning	<u>5,364,946</u>	<u>797,810</u>
Net Assets - Ending	<u>\$ 5,557,929</u>	<u>\$ 759,875</u>

See Accompanying Notes to Financial Statements

Business Type Activities		Business Type Activities	
Sewer System	Total	Internal Service	
\$ 495,505	\$ 2,588,507	\$ 15,000	
495,505	2,588,507	15,000	
61,771	1,278,124	-	
121,933	738,350	-	
57,195	207,562	-	
231,717	231,717	-	
56,620	216,667	-	
-	-	9,272	
529,236	2,672,420	9,272	
(33,731)	(83,913)	5,728	
7,855	75,277	-	
55	26,583	-	
-	80,035	-	
-	19,017	-	
-	-	-	
-	12,228	-	
7,910	213,140	-	
(25,821)	129,227	5,728	
-	-	-	
-	-	-	
(25,821)	129,227	5,728	
1,353,039	7,515,795	91,966	
\$ 1,327,218	\$ 7,645,022	\$ 97,694	

CITY OF ONAWA, IOWA
COMBINING STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	Business Type Activities	
	Electric System	Water System
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received from Customers	\$ 1,771,357	\$ 303,110
Cash Paid to Suppliers for Goods and Services	(1,381,469)	(127,787)
Cash Paid to Employees for Services	(277,875)	(194,710)
Other Nonoperating Income	39,268	19,049
Cash Received for Customer Deposits	3,241	
Net Cash Provided (Used) by Operating Activities	<u>154,522</u>	<u>(338)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Operating Transfers from (to) Other Funds	-	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and Construction of Capital Assets	(185,727)	(11,425)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of Temporary Cash Investments	(3,241)	(100,000)
Purchase of Temporary Cash Investments-Equipment	-	
Proceeds from Sale of Temporary Cash Investments	-	100,000
Proceeds from Sale of Temporary Cash Investments -Equipment	-	-
Proceeds from Patranage Dividend from WIMECA	153,555	-
Interest Received	-	2,054
Net Cash Provided (Used) for Investing Activities	<u>150,314</u>	<u>2,054</u>
Net Increase (Decrease) in Cash and Cash Equivalents	119,109	(9,709)
Cash and Cash Equivalents at Beginning of Year	<u>251,546</u>	<u>71,014</u>
Cash and Cash Equivalents at End of Year	<u>\$ 370,655</u>	<u>\$ 61,305</u>

See Accompanying Notes to Financial Statements

Business Type Activities		Business Type
Sewer System	Total	Activities Internal Service
\$ 491,646	\$ 2,566,113	\$ 15,000
(289,998)	(1,799,254)	(9,272)
(180,617)	(653,202)	-
327	58,644	-
-	3,241	-
21,358	175,542	5,728
-	-	-
(2,293)	(199,445)	-
-	(103,241)	-
-	100,000	-
-	-	-
-	153,555	-
-	2,054	-
-	152,368	-
19,065	128,465	5,728
53,397	375,957	91,966
\$ 72,462	\$ 504,422	\$ 97,694

(Continued)

CITY OF ONAWA, IOWA
COMBINING STATEMENT OF CASH FLOWS (Continued)
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	Business Type Activities	
	Electric System	Water System
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities		
Operating Income (Loss)	\$ 17,167	\$ (67,349)
Adjustments to Reconcile Net Operating Income (Loss) to Net Cash Provided by Operating Activities:		-
Depreciation	105,293	54,754
Other Non-Operating Income	38,996	18,777
(Increase) Decrease in Assets:		
Accounts Receivable	(12,766)	(5,769)
Prepaid Expenses	1,083	(303)
Due From Other Governments	272	272
Inventories	(3,797)	(14,273)
Increase (Decrease) in Liabilities		
Accounts Payable	8,405	11,045
Accrued Wages and Compensated Absences	9,465	7,788
Accrued Expenses	(12,837)	(5,280)
Customer Deposits	3,241	-
Total Adjustments	137,355	67,011
Net Cash Provided (Used) by Operating Activities	154,522	(338)
Non Cash Investing and Financing Activities		
Reinvestment of Interest Income	39,896	9,123
Increase in Temporary Cash Investments	39,890	5,628
Increase in Temporary Cash Investments Designated for Equipment	6	3,495
	\$ 39,896	\$ 9,123

See Accompanying Notes to Financial Statements

<u>Business Type Activities</u>		<u>Business Type</u>
<u>Sewer</u>		<u>Activities</u>
<u>System</u>	<u>Total</u>	<u>Internal</u>
		<u>Service</u>
<u>\$ (33,731)</u>	<u>\$ (83,913)</u>	<u>\$ 5,728</u>
56,620	216,667	-
55	57,828	-
(3,859)	(22,394)	-
86	866	-
272	816	-
1,034	(17,036)	-
996	20,446	-
4,913	22,166	-
(5,028)	(23,145)	-
-	3,241	-
<u>55,089</u>	<u>259,455</u>	<u>-</u>
<u>21,358</u>	<u>175,542</u>	<u>\$ 5,728</u>
4,293	53,312	-
3,719	49,237	-
574	4,075	-
<u>\$ 4,293</u>	<u>\$ 53,312</u>	<u>-</u>

CITY OF ONAWA, IOWA
Notes to Financial Statements
June 30, 2006

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Onawa, Iowa is a political subdivision of the State of Iowa located in Monona County, and was incorporated in 1859, and operates under the Home Rule Provisions of the Constitution of Iowa. The City operates under a Mayor-Council form of government with an appointed administrator and finance director and administers the following programs as authorized by its charter: public safety, public works, culture and recreation, community and economic development and general government services. The City also has municipal electric, water and sewer utility systems, which are governed by the City Council.

The City's financial statements are prepared in accordance with U.S. generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. The City applies only the applicable FASB pronouncements issued prior to November 30, 1989 in accounting and reporting its proprietary operations. The more significant accounting policies established in GAAP and used by the City are discussed below.

A. Reporting Entity

For financial reporting purposes, the City of Onawa, Iowa, has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City.

The City of Onawa does not include any component units within its reporting unit.

Jointly Governed Organizations - The City also participates in several jointly governed organizations for which the City is not financially accountable or that the nature and significance of the relationship with the City are such that exclusion does not cause the City's financial statements to be misleading or incomplete. City officials are members of the following Boards and Commissions: Monona County Assessors' Conference Board, Monona County Emergency Management Commission, Monona County Joint E911 Service Board, and Monona County Landfill Commission.

B. Basic Financial Statements-Government-Wide Statements

The City's basic financial statements include both government-wide (reporting the City as a whole) and fund financial statements (reporting the City's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. The City's general, special revenue, debt service, and capital projects funds are classified as governmental activities. The City's health insurance and risk insurance internal service funds are classified as business-type activities.

In the government-wide Statement of Net Assets, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column, and (b) are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The City's net assets are reported in three parts-invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The City first uses restricted resources to finance qualifying activities.

CITY OF ONAWA, IOWA
Notes to Financial Statements
June 30, 2006

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Government-wide Statement of Activities reports both the gross and net cost of each of the City's functions (public safety, public works, culture and recreation, community and economic development, general government, etc.) and business-type activities. The functions are also supported by general government expenses (including depreciation) by related program revenue, operating grants, and capital grants. Program revenue must be directly associated with the function or a business-type activity. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

The City does not allocate indirect costs. Certain expenses of the City are accounted for through the internal service fund on a cost-reimbursement basis.

This government-wide focus is more on the sustainability of the City as an entity and the change in the City's net assets resulting from the current year activities.

C. Fund Accounting

The accounts of the City are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues or receipts, and expenditures or expenses, as appropriate. Government resources are allocated to, and accounted for, in individual funds based on the purpose for which they are to be spent and the means by which spending activities are controlled.

The emphasis in fund financial statements is on the major funds in either the governmental or business-type activities categories. GASB No. 34 sets forth minimum criteria for the determination of major funds. The City electively added funds, as major funds, which had a specific community focus. The non-major funds are combined into a single column in the fund financial statements. The City reports the following major governmental funds:

Governmental Fund Types – The governmental fund financial statements are reported using the current financial resources measurement focus. This means that the focus of the governmental funds' measurement is upon the determination of financial position and changes in financial position (sources, uses and balances of financial resources) rather than upon net income. The following is a description of the major governmental funds of the City:

- 1) General Fund – The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. The sources of revenue include property taxes, charges for services, fines and fees, licenses and permits, as well as state and federal grants. The expenditures of the General Fund relate to general administration, police and fire protection, maintenance of public streets, economic development, and culture and recreation.

- 2) Special Revenue Funds

The TIF (Tax Incremental Financing Fund) is used to account for property taxes received to be expended for constructions of specific projects within the TIF District.

The Road Use Tax Fund is used to account for the operation of street maintenance and construction financed by allocations of state fuel taxes.

CITY OF ONAWA, IOWA
Notes to Financial Statements
June 30, 2006

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The Local Option Sales Tax Fund is used to account for the collection of a 1% local option sales tax to be expended for industrial development and infrastructure and for property tax relief.

- 3) Debt Service Fund – The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt, principal, interest, and related costs.

4) Capital Project Funds

The Library Expansion Fund is used to account for the construction of capital assets related to the library expansion financed through individual contributions, grants and bond proceeds.

The 2004 Street Project and 2005 Street Project are used to account for the resurfacing of various streets within the City of Onawa.

Proprietary Fund Types – The focus of proprietary fund measurement is upon determination of operating income, changes in net assets, financial position, and cash flows. Operating revenues and expenses are distinguished from non-operating revenues and expenses. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of enterprise funds are charges to customers for services. Operating expenses consist of cost of sales and services, administrative expenses and depreciation on capital assets. The U.S. generally accepted accounting principles used are those applicable to similar businesses in the private sector.

- 1) Enterprise Funds – Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis should be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The City maintains several business-type activities. The major enterprise funds are listed as follows:

The Electric Fund is used to account for the operation and maintenance of the City's electric system.

The Water Fund is used to account for the operation and maintenance of the City's water system.

The Sewer Fund is used to account for the operation and maintenance of the City's sewer system.

- 2) Internal Service Funds – Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other governments, on a cost-recovery basis.

The City's internal service funds are presented in the proprietary fund financial statements.

CITY OF ONAWA, IOWA
Notes to Financial Statements
June 30, 2006

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Risk Insurance – The City operates an insurance deductible fund that accounts for all deductibles on insurance claims owed by the other organizational units of the City. The financial statements of the risk insurance internal service fund are consolidated into the business type column when presented in the government-wide financial statements. To the extent possible, the cost of these services is reported in the appropriate functional activity.

Health Insurance Deductibles – The City operates a health insurance deductible fund that accounts for all deductibles on employee health insurance claims owed by the other organizational units of the City. The financial statements of the health insurance deductible internal service fund are consolidated into the business type column when presented in the government-wide financial statements. To the extent possible, the cost of these services is reported in the appropriate functional activity.

Fiduciary Fund Types – Fiduciary funds are used to report assets held in an agency or custodial capacity for others and therefore not available to support City programs. Since agency funds are custodial in nature, they do not involve the measurement of results of operations and are not incorporated into the government-wide financial statements.

D. Basis of Accounting

Basis of accounting refers to the point at which revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made, regardless of the measurement focus applied.

Accrual basis of accounting is used for all activities in the government-wide financial statements and for the proprietary and fiduciary activities in the fund financial statements. Revenues are recognized when earned and expenses are recognized when incurred.

Modified accrual basis of accounting is used by all governmental funds in the fund financial statements. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The government considers property taxes as available if they are collected within 60 days after year-end. A one-year availability period is used for revenue recognition for all other governmental fund revenues.

Expenditures are recorded when the related fund liability is incurred. An exception to this general rule is that principal and interest on general obligation debt, if any, is recognized when due.

Those revenues susceptible to accrual are property taxes, assessments, and intergovernmental revenues. Licenses, fines and permits are not susceptible to accrual because generally they are not measurable until received in cash.

E. Budgets

Chapter 384, Section 16, of the State Code of Iowa requires the adoption of an annual budget on or before March 15 of each year, which becomes effective July 1 and constitutes the appropriation for each program specified therein until amended. The City budget may be amended for specified level purposes and budget amendments must be prepared and adopted in the same manner as the original budget. Appropriations, as adopted and amended, lapse at the end of the fiscal year.

CITY OF ONAWA, IOWA
Notes to Financial Statements
June 30, 2006

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Annual budgets are adopted on the cash basis of accounting for all governmental funds. The City's budget is prepared on the cash basis of accounting. The legal level of control (the level on which expenditures may not legally exceed appropriations) is the program level for all funds combined rather than at the individual fund level. This level of control is at a level higher than the individual fund. It is necessary, therefore, to aggregate the expenditures of governmental fund types with expenses of proprietary fund types on a program level basis and to compare such program totals to program budgeted totals in order to demonstrate legal compliance with budget. Legal budget compliance for cities in the State of Iowa is applied only to expenditures.

The Budgetary comparison and related disclosures are reported as Required Supplementary Information.

F. Cash And Cash Equivalents And Investments

The City is authorized by statute to invest public funds not currently needed for operating expenses in notes, certificates, bonds, prime eligible bankers acceptances, certain high rated commercial paper, perfected repurchase agreements, or other evidences of indebtedness which are obligations of or guaranteed by the United States of America or any of its agencies, or in time deposits or savings accounts in depositories approved by the City Council.

1) Cash and Cash Equivalents

Includes investments with original maturities of three months or less.

2) Investments

The City and uses the following methods in determining the reported amounts.

<u>Type</u>	<u>Method</u>
Nonnegotiable Certificates of Deposit	Cost

G. Property Tax Receivable

Property tax in Governmental Funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the City Council to the County Board of Supervisors. Current year delinquent property taxes receivable represents unpaid taxes from the current year. The succeeding year property tax receivable represents taxes certified by the City Council to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the City Council is required to certify its budget to the County Auditor by March 15 of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied.

CITY OF ONAWA, IOWA
Notes to Financial Statements
June 30, 2006

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2005. Any county collections on the 2005-2006 tax levy remitted to the City within 60 days subsequent to June 30, 2006, are recorded as property tax revenue.

H. Short-Term Interfund Receivables/Payables

During the course of its operations, the City has numerous transactions between funds to finance operations, provide services, construct assets, and service debt. To the extent that certain transactions between funds have not been paid or received as of June 30, 2006, balances of interfund amounts payable or receivable have been recorded as "due to other funds" and "due from other funds", respectively. Any residual balances outstanding between governmental activities and business-type activities are reported in the government-wide financial statements as interfund balances.

I. Inventories

Inventories of the proprietary fund types are valued at cost, which approximates market, using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased. The inventory amounts are not material and therefore not recorded on the balance sheet.

J. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2006 are recorded as prepaid items.

K. Property and Equipment

Assets with an initial individual cost of \$1,000 or more are considered capital assets. Property and equipment are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed assets are reported at their fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Historical infrastructure has not been recorded on these financial statements other than buildings and improvements. GASB 34 does not require the City of Onawa to record the historical infrastructure costs. Depreciation on all assets is provided on the straight-line basis over the following estimated lives:

Buildings	39 – 50 Years
Utility Plant	20 – 33 Years
Machinery & Equipment	3 - 20 Years
Infrastructure	15 – 70 Years

L. Compensated Absences

Vested or accumulated vacation leave including related employee benefits that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Vested or accumulated vacation leave of proprietary funds is recorded as an expense and liability of those funds as the benefits accrue to employees.

CITY OF ONAWA, IOWA
Notes to Financial Statements
June 30, 2006

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

M. Long-Term Obligations

Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the debt service fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the government-wide financial statements. Long-term liabilities expected to be financed from proprietary fund operations are accounted for in those funds.

N. Fund Equity

Reserves represent those portions of fund equity legally segregated for a specific future use.

O. Interfund Transactions

Interfund services provided and used are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

All other interfund transactions, except interfund services provided and used transactions and reimbursements, are reported as transfers.

P. Landfill Closure Costs

The City is part of an Iowa Code Section 28F agreement with the Monona County Landfill Commission and, therefore, not required to account for landfill post closure costs.

Note 2 - CASH AND CASH EQUIVALENTS AND INVESTMENTS

The City's deposits at June 30, 2006, were entirely covered by Federal Depository Insurance collateralized with securities or letters of credit held by the City or by a multiple financial institution collateral pool in accordance with Chapter 12C of the Code of Iowa. Chapter 12C provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligation of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; and certain joint investment trusts.

Deposits at June 30, 2006, are shown below:

	<u>Primary Government</u>	<u>Bank Balance</u>
Demand Deposits	\$ 1,013,401	\$ 1,033,438
Savings Deposits	1,911,818	1,911,818
Time Deposits	1,615,827	1,615,827
	<u>\$ 4,541,046</u>	<u>\$4,561,083</u>

CITY OF ONAWA, IOWA
Notes to Financial Statements
June 30, 2006

Note 2 - CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

The primary government's investments are categorized to give an indication of the level of risk assumed by the City at year-end. At June 30, 2006, the City's investments are in a category characterized as investments that are insured or registered or for which the securities are held by the City or its agent in the City's name. The City did not hold any investments at June 30, 2006.

There were no significant changes in investments held during the fiscal year ended June 30, 2006.

Note 3 - RECEIVABLES

Receivables at June 30, 2006 are net of allowance for uncollectibles. The allowance for uncollectibles of the enterprise funds of the primary government was \$12,945 at June 30, 2006.

Note 4 - DUE FROM OTHER GOVERNMENTS

At June 30, 2006, amounts due from other governments were as follows:

Due from the Iowa Department of Transportation for road use tax allocations	\$ 20,154
Due from the State of Iowa for local option sales taxes	13,975
Due from the State of Iowa for sales tax refund on library	71,888
Due from the State of Iowa for miscellaneous refunds	630
Due from the Onawa Drainage District for their share of 2005 Street Project	19,762
Total Due from Other Governments	<u>\$ 126,409</u>

Note 5 - INTERFUND RECEIVABLES AND PAYABLES

As of June 30, 2006, short-term interfund borrowings were as follows:

<u>Fund Due To</u>	<u>Fund Due From</u>	<u>Amount</u>
Special Revenue – Road Use Tax	TIF Fund	\$ 481,700
Special Revenue – Road Use Tax	2005 Street Project	144,728
Special Revenue – Local Option Sales Tax	2004 Street Capital Project	144,600
Special Revenue – Local Option Sales Tax	2005 Street Project	51,389
Special Revenue – Local Option Sales Tax	Library Expansion	97,609
Special Revenue – Local Option Sales Tax	Debt Service Fund	556
Special Revenue – Local Option Sales Tax	Nonmajor Governmental Funds	135,846
General Fund	Nonmajor Governmental Funds	3,387
		<u>\$ 1,059,815</u>

Note 6 - CAPITAL ASSETS

A summary of changes in capital assets is as follows:

	<u>Balance</u> <u>July 1,</u> <u>2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30,</u> <u>2006</u>
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 437,239			\$ 437,239
Construction in Progress	9,949	\$ 269,858	\$ 201,930	77,877
Total capital assets not being depreciated	<u>447,188</u>	<u>269,858</u>	<u>201,930</u>	<u>515,116</u>

CITY OF ONAWA, IOWA
Notes to Financial Statements
June 30, 2006

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006
Capital assets being depreciated:				
Buildings	\$ 4,217,655	\$ 8,781		\$ 4,226,436
Improvements	440,194			440,194
Equipment	1,539,441	167,107		1,706,548
Infrastructure	290,091	201,930		492,021
Total capital assets being depreciated	<u>6,487,381</u>	<u>377,818</u>	<u>-</u>	<u>6,865,199</u>
Less: Accumulated Depreciation for:				
Buildings	325,533	85,020		410,553
Improvements	98,554	18,718		117,272
Equipment	796,758	96,576		893,334
Infrastructure	9,234	21,797		31,031
Total Accumulated Depreciation	<u>1,230,079</u>	<u>222,111</u>		<u>1,452,190</u>
Total capital assets being depreciated, net	<u>5,257,302</u>	<u>155,707</u>		<u>5,413,009</u>
Governmental activities capital assets, net	<u>5,704,490</u>	<u>425,565</u>	<u>\$ 201,930</u>	<u>5,928,125</u>
Business-Type Activities:				
Capital assets not being depreciated:				
Land	9,050			9,050
Construction in Progress	-			-
Total capital assets not being depreciated	<u>9,050</u>	<u>-</u>	<u>-</u>	<u>9,050</u>
Capital assets being depreciated:				
Equipment	1,179,294	11,425		1,367,314
Buildings, Utility Plant, Lines, Etc.	5,980,091	188,020		5,991,516
Total capital assets being depreciated	<u>7,159,385</u>	<u>199,445</u>	<u>-</u>	<u>7,358,830</u>
Less: Accumulated Depreciation	<u>3,876,729</u>	<u>216,667</u>		<u>4,093,396</u>
Total capital assets being depreciated, net	<u>3,282,656</u>	<u>\$ (17,222)</u>	<u>-</u>	<u>\$ 3,265,434</u>

Construction in progress at June 30, 2006 consisted of costs associated with the 2006 Street Capital Project.

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:	
Public Safety	\$ 45,771
Public Works	19,884
Culture and Recreation	131,218
Community and Economic Development	3,441
General Government	<u>21,797</u>
Total depreciation expense – governmental activities	<u>222,111</u>
Business-Type Activities:	
Electric	105,293
Water	54,754
Sewer	<u>56,620</u>
Total depreciation expense – business-type activities	<u>\$ 216,667</u>

CITY OF ONAWA, IOWA
Notes to Financial Statements
June 30, 2006

Note 6 - CAPITAL ASSETS – (Continued)

Reconciliation of Investment in Capital Assets:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Land	\$ 437,239	\$ 9,050
Construction in Progress	77,877	
Capital Assets (net of accumulated depreciation)	5,413,009	3,265,434
Less: General Obligation Bonds Payable	(1,845,000)	
Investment in Capital Assets, Net of Related Debt	<u>\$ 4,083,125</u>	<u>\$ 3,274,484</u>

Note 7 - LONG-TERM DEBT

General Obligation Bonds

The City issues general obligation bonds to provide funds for the construction of the library expansion project. General obligation bonds have been issued for the governmental activities. These bonds are direct obligations and pledge the full faith and credit of the City.

The City has issued general obligation bonds as follows:

\$960,000 1997 Corporate Purpose Loan Notes due in annual installments of \$65,000 to \$95,000 through 2012. These notes were refinanced in fiscal year ended June 30, 2006.

\$1,500,000 2003 General Obligation Bonds due in annual installments of \$80,000 to \$130,000 through 2019.

\$505,000 2006 General Obligation Bonds due in annual installments of \$70,000 to \$90,000 through 2012.

General obligation bonds outstanding as of June 30, 2006 are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amounts</u>
Governmental Activities – Library	2.35 - 4.40%	\$ 1,340,000
Governmental Activities – TIF	3.30 - 3.80%	505,000
		<u>\$ 1,845,000</u>

CITY OF ONAWA, IOWA
Notes to Financial Statements
June 30, 2006

Note 7 - LONG-TERM DEBT – (Continued)

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending June 30,	Governmental Activities Principal	Interest
2007	150,000	67,460
2008	165,000	63,270
2009	175,000	58,255
2010	175,000	52,625
2011	185,000	46,685
2012-2016	620,000	148,665
2017-2019	375,000	32,950
Total	\$ 1,845,000	\$ 469,910

Changes in Long-Term Liabilities

Long-Term liability activity for the year ended June 30, 2006, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
Governmental					
Activities:					
Bonds Payable:					
General Obligation	\$ 1,985,000	\$ 505,000	\$ 645,000	\$ 1,845,000	\$ 150,000
Notes Payable	10,715		10,715	-	-
Total	\$ 1,995,715	\$ 505,000	\$ 655,715	\$ 1,845,000	\$ 150,000

Note 8 - TRANSFERS

The following is a summary of transfers between funds:

	Governmental Fund Types			
	General	Debt Service	Nonmajor Governmental	Governmental Fund Types
TIF	\$ 16,000	\$ 104,428	\$ 20,000	\$ 140,428
Local Option Sales Tax	120,000			120,000
Nonmajor Governmental	81,327			81,327
Total Transfers	\$ 217,327	\$ 104,428	\$ 20,000	\$ 341,755

CITY OF ONAWA, IOWA
Notes to Financial Statements
June 30, 2006

Note 8 - TRANSFERS (Continued)

Transfers are used to:

1. Move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them.
2. To move receipts restricted to debt service from the fund collecting the receipts to the debt service fund as debt service payments become due.
3. To use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.
4. To move receipts collected by Business Type activity Funds to Capital Project Funds in accordance with budgetary amortizations.

Note 9 - PENSION AND RETIREMENT

Iowa Public Employees Retirement System - The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute plan to members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.70 percent of their annual covered salary and the City is required to contribute 5.75 percent of annual covered payroll except for police employees, in which case, the percentages are 6.16 for employees and 9.23 for the city contribution. For the year ended June 30, 2005, the contribution rates for police employees and the City were 6.16 percent and 9.23 percent, respectively, and for the year ended June 30, 2004, the contribution rates for police employees and the City were 5.93 percent and 8.90 percent, respectively. Contribution requirements are established by state statute. The City contribution to IPERS for the years ended June 30, 2006, 2005, and 2004 were \$60,721, \$60,195, and \$54,584, respectively, equal to the required contributions for each year.

Note 10 - DEFICIT FUND EQUITY

The City has seven funds with deficit equity balances at June 30, 2006. The City intends to finance these deficits from various resources including general funds, special assessments to be collected and future property tax levies.

The individual fund deficits were as follows:

Special Revenue – Employee Benefits	\$ 11,839
Special Revenue – TIF.....	467,472
Capital Project – Community Center.....	71,521
Capital Project – 2004 Street Project.....	137,924
Capital Project – 2005 Street Project.....	201,930
Capital Project – 2006 Street Project.....	77,877
Capital Project – 15 th & Marble Street.....	12,485
Capital Project – Library Expansion	188,258

CITY OF ONAWA, IOWA
Notes to Financial Statements
June 30, 2006

Note 11 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the City carries commercial insurance.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. There are no claims reported in the financial statements as a liability and no losses in excess of insurance coverage have occurred in the last three years.

There were no significant reductions in insurance coverage over the past three years.

Note 12 - INVESTMENT IN WIMECA

Western Iowa Municipal Electric Cooperative Association (WIMECA) was incorporated on December 4, 1973, under the laws of Iowa. The Association operates as a cooperative for six municipalities. The primary activity of the Association is the acquisition of electric power and energy which is sold to its member municipalities.

It is the intent of the Association to operate on a nonprofit basis and, accordingly, earnings are distributed in accordance with the provisions of Chapter 499 of the Code of Iowa. In order to comply with such provisions, earnings must first be allocated to meet certain reserve and surplus requirements with remaining earnings allocated to the account of each member municipality based on the proportion of business which each municipality has done with the Association during the year. The City of Onawa's Electric Enterprise Fund's proportion of business for the year ended December 31, 2005 represents 31.2% of the total member business.

The last available information for WIMECA is from its December 31, 2005 independent audit report. These financial statements are available at the City office.

The summary financial information of WIMECA is as follows:

	December 31, 2005
Total Assets	\$ <u>4,662,379</u>
Total Liabilities	292,231
Total Equity	<u>4,370,148</u>
Total Liabilities and Equity	<u>4,662,379</u>
 Total Revenue	 3,479,090
Total Expense	<u>3,222,486</u>
Net Earnings	\$ <u>256,604</u>

At December 31, 2005, WIMECA had no outstanding bonds.

At June 30, 2006, the City of Onawa Electric Enterprise Fund investment in WIMECA was as follows:

	June 30, 2006
Beginning Balance	\$ 1,427,493
Add: Net Earnings	<u>80,035</u>
Balance	1,507,528
Less: Dividends Received	<u>153,555</u>
Ending Balance at June 30, 2006	\$ <u>1,353,973</u>

CITY OF ONAWA, IOWA
Notes to Financial Statements
June 30, 2006

Note 13 - CONTINGENCIES & COMMITMENTS

On June 14, 2005, the City Council approved the City to enter into a garbage hauling contract with Ross Enterprises, Inc. for the period of July 1, 2005 through June 30, 2010 at an annual cost of approximately \$120,000 based on the number of customers.

CITY OF ONAWA, IOWA

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF ONAWA, IOWA

CITY OF ONAWA, IOWA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE, BUDGET
AND ACTUAL, GENERAL FUND AND MAJOR SPECIAL REVENUE FUNDS
YEAR ENDED JUNE 30, 2006

	General Fund			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual	
	Original	Final		
Revenue:				
Taxes	\$ 494,315	\$ 494,315	\$ 497,807	\$ 3,492
Special Assessments	20,000	20,000	11,139	(8,861)
Licenses and Permits	39,950	39,950	26,446	(13,504)
Intergovernmental Revenue	21,600	21,600	34,807	13,207
Charges for Services	146,022	146,022	76,924	(69,098)
Fines and Forfeits	-	-	14,848	14,848
Contributions	-	-	28,672	28,672
Interest	19,000	19,000	81,416	62,416
Miscellaneous	147,254	147,254	119,750	(27,504)
Total Revenue	888,141	888,141	891,809	3,668
Expenditures:				
Public Safety	501,018	521,018	449,045	71,973
Public Works	21,175	21,175	20,842	333
Culture and Recreation	451,397	451,397	403,074	48,323
Community and Economic Development	-	2,000	1,406	594
General Government	208,955	208,955	135,112	73,843
Total Expenditures	1,182,545	1,204,545	1,009,479	195,066
Excess (deficiency) of revenues over expenditures	(294,404)	(316,404)	(117,670)	198,734
Other financing sources (uses):				
Interfund Transfers In	198,000	198,000	217,327	19,327
Interfund Transfers Out	-	-	-	-
Total other financing sources (uses)	198,000	198,000	217,327	19,327
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	\$ (96,404)	\$ (118,404)	99,657	\$ 218,061
Fund balances-beginning of year			1,408,105	
Fund balances- end of year			\$ 1,507,762	

TIF				
Budgeted Amounts			Variance with	
Original	Amended	Actual	Final Budget	
			Positive	
			(Negative)	
\$ 350,000	\$ 350,000	\$ 340,899	\$ (9,101)	
-	-	-	-	
-	-	-	-	
-	-	-	-	
-	-	-	-	
-	-	2,000	2,000	
-	-	-	-	
-	-	-	-	
350,000	350,000	342,899	(7,101)	
-	-	-	-	
-	-	-	-	
-	-	-	-	
20,000	75,000	73,515	1,485	
-	-	-	-	
20,000	75,000	73,515	1,485	
330,000	275,000	269,384	(5,616)	
-	-	-	-	
(100,430)	(100,430)	(140,428)	(39,998)	
(100,430)	(100,430)	(140,428)	(39,998)	
\$ 229,570	\$ 174,570	128,956	\$ (45,614)	
		(596,428)		
		\$ (467,472)		

CITY OF ONAWA, IOWA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE, BUDGET
AND ACTUAL, GENERAL FUND AND MAJOR SPECIAL REVENUE FUNDS - (Continued)
YEAR ENDED JUNE 30, 2006

	Road Use Tax			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual	
	Original	Amended		
Revenue:				
Intergovernmental Revenue	\$ 264,280	\$ 264,280	\$ 258,835	\$ (5,445)
Miscellaneous	-	-	1,318	1,318
Total Revenue	264,280	264,280	260,153	(4,127)
Expenditures:				
Public Works	401,175	401,175	259,388	141,787
Community and Economic Development	-	-	-	-
Total Expenditures	401,175	401,175	259,388	141,787
Excess (deficiency) of revenues over expenditures	(136,895)	(136,895)	765	137,660
Other financing sources (uses):				
Interfund Transfers Out	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	\$ (136,895)	\$ (136,895)	765	\$ 137,660
Fund Balances - Beginning of Year			691,676	
Fund Balances - End of Year			\$ 692,441	

Local Option Sales Tax				
Budgeted Amounts			Variance with	
Original	Amended	Actual	Final Budget	
			Positive	
			(Negative)	
\$ 157,400	\$ 157,400	\$ 169,515	\$ 12,115	
-	-	-	-	
157,400	157,400	169,515	12,115	
-	-	-	-	
58,750	31,750	20,340	11,410	
58,750	31,750	20,340	11,410	
98,650	125,650	149,175	23,525	
(120,000)	(120,000)	(120,000)	-	
(120,000)	(120,000)	(120,000)	-	
\$ (21,350)	\$ 5,650	29,175	\$ 23,525	
		430,119		
		\$ 459,294		

CITY OF ONAWA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2006

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon 9 major classes of disbursements known as functions, not by fund or fund type. These 9 functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Fund and Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund.

The following schedule demonstrates the City's legal compliance to the budget.

<u>Function</u>	<u>Budgeted Original</u>	<u>Amount Amended</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Public Safety	\$ 501,018	\$ 521,018	\$ 449,045	\$ 71,973
Public Works	422,350	422,350	282,362	139,988
Culture & Recreation	451,397	451,397	403,074	48,323
Community & Economic Development	78,750	108,750	95,261	13,489
General Government	208,955	208,955	162,244	46,711
Debt Service	238,460	733,460	726,405	7,055
Capital Projects	24,500	524,500	278,639	245,861
Business Type/Enterprise	3,200,135	3,200,135	2,681,692	518,443
Total	<u>\$ 5,125,565</u>	<u>\$ 6,170,565</u>	<u>\$ 5,078,722</u>	<u>\$ 1,091,843</u>

SUPPLEMENTARY INFORMATION

CITY OF ONAWA, IOWA

CITY OF ONAWA, IOWA
COMBINING BALANCE SHEET
GOVERNMENTAL NONMAJOR FUNDS
JUNE 30, 2006

	Special Revenue Funds		Capital Projects			Capital Project
	Employee Benefits	2006 Street Project	Community Center	15th and Marble		Veteran's Memorial
Assets						
Cash and Pooled Investments	\$ -	\$ -	\$ -	\$ -	\$ -	-
Investments	-	-	-	-	-	-
Receivables (Net, where applicable, of allowance for uncollectibles)						
Taxes	2,718	-	-	-	-	-
Subsequent Year Taxes	82,164	-	-	-	-	-
Accrued Interest	-	-	-	968	-	-
Special Assessments	-	-	-	2,919	-	-
Subsequent Year Special Assessments	-	-	-	18,821	-	-
Total Assets	84,882	-	-	22,708	-	-
Liabilities and Fund Balances						
Liabilities:						
Accounts Payable	-	41,094	-	-	-	-
Due to Other Funds	14,557	36,783	71,521	16,372	-	-
Deferred Revenue - Subsequent Year Taxes	82,164	-	-	-	-	-
Deferred Revenue - Subsequent Year Assessments	-	-	-	18,821	-	-
Total Liabilities	96,721	77,877	71,521	35,193	-	-
Fund Balances:						
Reserved for:						
Endowment	-	-	-	-	-	-
Unreserved (Deficit)	(11,839)	(77,877)	(71,521)	(12,485)	-	-
Total Fund Balances (Deficits)	(11,839)	\$ (77,877)	\$ (71,521)	(12,485)	-	-
Total Liabilities and Equity	\$ 84,882	-	-	\$ 22,708	\$ -	-

Permanent Fund		Total Governmental Nonmajor Funds
Cemetery Perpetual Care Fund	Library Endowment Fund	
\$ 3,426	\$ 33,104	\$ 36,530
77,721	-	77,721
-	-	2,718
-	-	82,164
1,442	632	3,042
-	-	2,919
-	-	18,821
82,589	33,736	223,915
-	-	41,094
-	-	139,233
-	-	82,164
-	-	18,821
-	-	281,312
82,589	33,736	116,325
-	-	(173,722)
82,589	33,736	(57,397)
\$ 82,589	\$ 33,736	\$ 223,915

CITY OF ONAWA, IOWA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 GOVERNMENTAL NONMAJOR FUNDS
 JUNE 30, 2006

	Special Revenue Fund		Capital Projects	
	Employee Benefits	2006 Street Project	Community Center	15th and Marble
Revenue:				
Taxes	\$ 78,684		-	-
Special Assessments	-		-	\$ 3,611
Intergovernmental Revenue	-	-	-	-
Contributions	-	-	-	-
Interest	-	-	-	1,328
Total Revenue	78,684	-	-	4,939
Expenditures:				
Culture and Recreation	-	-	\$ -	-
General Government	13,134	-	-	-
Capital Projects	-	\$ 77,877	-	-
Total Expenditures	13,134	77,877	-	-
Excess (deficiency) of revenues over expenditures	65,550	(77,877)	-	4,939
Other financing sources (uses):				
Transfers In	-	-	-	-
Transfers Out	(77,595)	-	-	-
Total other financing sources (uses)	(77,595)	-	-	-
Net Change in Fund Balance	(12,045)	(77,877)	-	4,939
Fund balances (deficits) -beginning of year	206	-	(71,521)	(17,424)
Fund balances (deficits) - end of year	\$ (11,839)	\$ (77,877)	\$ (71,521)	\$ (12,485)

Veteran's Memorial	Permanent Fund		Total Governmental Nonmajor Funds
	Cemetery Perpetual Care Fund	Library Endowment Fund	
\$ -	-	-	\$ 78,684
-	-	-	3,611
33,000	-	-	33,000
28,019	\$ 1,350	\$ -	29,369
-	3,097	1,265	5,690
61,019	4,447	1,265	150,354
-	-	-	-
-	-	-	13,134
81,019	-	-	158,896
81,019	-	-	172,030
(20,000)	4,447	1,265	(21,676)
20,000	-	-	20,000
-	(1,777)	(1,955)	(81,327)
20,000	(1,777)	(1,955)	(61,327)
-	2,670	(690)	(83,003)
-	79,919	34,426	25,606
\$ -	\$ 82,589	\$ 33,736	\$ (57,397)

**CITY OF ONAWA, IOWA
 COMBINING STATEMENT OF NET ASSETS
 INTERNAL SERVICE FUNDS
 FOR THE YEAR ENDED JUNE 30, 2006**

	Risk Insurance	Health Insurance Deductibles	Totals
ASSETS			
Cash	\$ 94,453	\$ 3,241	\$ 97,694
Total Assets	94,453	3,241	97,694
LIABILITIES			
Total Liabilities	-	-	-
NET ASSETS			
Unrestricted	\$ 94,453	\$ 3,241	\$ 97,694

CITY OF ONAWA, IOWA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN NET ASSETS
INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	Risk Insurance	Health Insurance Deductibles	Totals
Operating revenues:			
Charges for services to operating funds	\$ 8,000	\$ 7,000	\$ 15,000
Operating expenses:			
General Government	3,000	6,272	9,272
Total operating expenses	<u>3,000</u>	<u>6,272</u>	<u>9,272</u>
Operating Income (Loss)	5,000	728	5,728
Net assets - beginning	<u>89,453</u>	<u>2,513</u>	<u>91,966</u>
Net assets - ending	<u>\$ 94,453</u>	<u>\$ 3,241</u>	<u>\$ 97,694</u>

CITY OF ONAWA, IOWA
COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	Risk Insurance	Health Insurance Deductibles	Totals
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash Received from Customers	\$ 8,000	\$ 7,000	\$ 15,000
Cash Paid to Suppliers	(3,000)	(6,272)	(9,272)
Net Increase (Decrease) in Cash and Cash Equivalents	5,000	728	5,728
Cash and Cash Equivalents at Beginning of Year	89,453	2,513	91,966
Cash and Cash Equivalents at End of Year	\$ 94,453	\$ 3,241	\$ 97,694
Reconciliation of Operating Income to Net Cash Provided by Operating Activities			
Operating Income (Loss)	\$ 5,000	\$ 728	\$ 5,728
Adjustments to Reconcile Net Operating Income to Net Cash Provided by Operating Activities:			
None			-
Total Adjustments	-	-	-
Net Cash Provided (Used) by Operating Activities	\$ 5,000	\$ 728	\$ 5,728

STATISTICAL SECTION

(NOT COVERED BY AUDITORS' REPORT)

CITY OF ONAWA, IOWA

TABLE I

General Government Expenditures By Function
General, Special Revenue, Debt Service and Capital Projects Funds
Last Ten Fiscal Years

<u>Year</u>	<u>Community Protection</u>	<u>Human Development</u>	<u>Home and Community Environment</u>	<u>Policy and Administration</u>	<u>Debt Service</u>	<u>Capital Outlay</u>	<u>Total</u>
1996-97	\$ 305,580	\$ 183,018	\$ 517,020	\$ 108,327	\$ 102,665	\$ 19,648	\$ 1,236,258
1997-98	406,194	185,730	740,153	115,199	155,818	96,465	1,699,559
1998-99	466,236	207,092	579,648	120,831	202,882	196,426	1,773,115
1999-00	353,731	230,316	300,288	158,120	195,133	12,025	1,249,613
2000-01	385,793	214,248	293,990	133,187	172,227	92,469	1,291,914
2001-02	\$ 439,022	\$ 209,693	\$ 427,963	\$ 140,767	\$ 165,595	\$ 1,706,647	\$ 3,089,687

<u>Year</u>	<u>Public Safety</u>	<u>Public Works</u>	<u>Culture & Recreation</u>	<u>Community & Economic Development</u>	<u>General Government</u>	<u>Debt Service</u>	<u>Capital Outlay</u>	<u>Total</u>
2002-03	\$ 521,334	\$ 272,125	\$ 310,817	\$ 281,796	\$ 118,987	\$ 168,878	\$ 694,118	\$ 2,368,055
2003-04	419,319	296,917	448,863	153,740	153,604	127,148	932,109	2,531,700
2004-05	495,741	195,237	363,075	359,477	140,858	230,887	1,975,890	3,761,165
2005-06	\$ 449,045	\$ 282,362	\$ 403,074	\$ 95,261	\$ 162,244	\$ 726,405	\$ 278,639	\$ 2,397,030

Note: Expenditures by function category changed in the fiscal year 2002-03.

TABLE II

General Government Revenues By Source
General, Special Revenue, Debt Service and Capital Projects Funds
Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Taxes</u>	<u>Licenses and Permits</u>	<u>Inter-Governmental</u>	<u>Charges for Services</u>	<u>Fines and Forfeitures</u>	<u>Contributions from Property Owners</u>	<u>Miscellaneous</u>	<u>Total</u>
1996-97	\$ 552,414	\$ 13,134	\$ 596,297	\$ 42,035	\$ 3,634		\$ 144,673	\$ 1,352,187
1997-98	635,620	48,603	537,078	44,648	3,829		202,330	1,472,108
1998-99	656,421	29,986	583,463	48,253	4,381		183,365	1,505,869
1999-00	713,653	27,466	485,109	48,928	6,712		219,569	1,501,437
2000-01	819,998	21,735	485,917	60,735	7,821	\$ 4,708	1,055,282	2,456,196
2001-02	928,628	35,068	846,263	56,540	15,420	22,959	251,380	2,156,258
2002-03	915,903	24,665	725,562	66,004	19,521	17,092	315,724	2,084,471
2003-04	1,010,540	21,470	468,180	71,991	13,356	63,047	2,123,510	3,772,094
2004-05	1,124,437	28,813	497,583	84,338	8,066	82,285	473,520	2,299,042
2005-06	\$ 1,055,853	\$ 26,446	\$ 496,157	\$ 76,924	\$ 14,848	\$ 28,791	\$ 868,975	\$ 2,567,994

CITY OF ONAWA, IOWA

TABLE III

Property Tax Levies and Collections

Last Ten Fiscal Years

<u>Collection Year</u>	<u>Total Tax Levy</u>	<u>Current Tax Collections</u>	<u>Percent of Levy Collected</u>	<u>Delinquent Tax Collections</u>
1996-97	\$ 531,217	\$ 523,745	\$ 98.59	\$ 4,636
1997-98	575,979	569,313	98.84	4,928
1998-99	523,051	519,651	99.35	4,842
1999-00	544,844	536,954	98.55	5,689
2000-01	544,579	533,282	97.93	5,086
2001-02	568,509	555,848	97.77	5,261
2002-03	594,770	580,538	97.61	5,673
2003-04	552,236	544,837	98.66	5,634
2004-05	612,963	587,517	95.85	5,863
2005-06	\$ 702,767	\$ 682,672	97.14%	\$ 4,889

TABLE IV

Assessed and Taxable Value of Property

Last Ten Fiscal Years

<u>Collection Year</u>	<u>Real Property</u>		<u>Personal Property</u>	
	<u>Assessed Value</u>	<u>Taxable Value</u>	<u>Assessed Value</u>	<u>Taxable Value</u>
1996-97	\$ 54,001,115	\$ 36,124,935	\$ 1,145,047	\$ 1,145,047
1997-98	54,066,576	35,307,268	1,093,729	1,093,729
1998-99	68,886,186	45,033,276	407,992	407,992
1999-00	69,283,251	46,774,491	297,923	297,923
2000-01	82,515,977	53,986,280	184,202	184,202
2001-02	85,284,452	57,317,876	110,247	110,247
2002-03	91,249,971	55,719,712	\$ 66,148	\$ 66,148
2003-04	91,062,986	58,404,414	-	-
2004-05	92,909,936	57,335,289	-	-
2005-06	\$ 96,444,611	\$ 60,112,322	-	-

<u>Total Tax Collections</u>	<u>Ratio of Total Tax Collections to Total Tax Levy</u>
511,584	99.30
528,381	99.47
574,241	99.70
524,493	100.28
542,643	99.60
538,368	98.86
561,109	98.70
580,211	98.56
550,471	99.68
593,380	96.81
\$ 687,561	97.84%

<u>Utilities</u>		<u>Total</u>		<u>Ratio of Total Taxable Value</u>
<u>Assessed Value</u>	<u>Taxable Value</u>	<u>Assessed Value</u>	<u>Taxable Value</u>	
\$ 2,017,110	\$ 2,006,787	\$ 57,163,272	\$ 39,276,769	68.71%
2,026,765	2,026,765	57,187,070	38,427,762	67.20
2,075,304	2,067,484	71,369,482	47,508,752	66.57
1,980,002	1,980,002	71,561,176	49,052,416	68.55
1,508,501	1,508,501	84,208,680	55,678,983	66.12
1,408,426	1,408,426	86,803,125	58,836,549	67.78
1,308,730	1,308,730	92,624,849	57,094,591	61.64
1,607,102	1,607,102	92,670,088	60,011,516	64.76
406,150	406,150	93,316,086	57,741,439	61.88
\$ 442,291	\$ 442,291	\$ 96,886,902	\$ 60,554,613	62.50%

CITY OF ONAWA, IOWA

TABLE V

Property Tax Rates and Tax Levies
Direct and Overlapping Governments
(Per \$1,000 of Assessed Value)
Last Ten Fiscal Years

<u>Year</u>	<u>City</u>	<u>School District</u>	<u>County Consolidated</u>	<u>Area Vocational School</u>	<u>State Levy</u>	<u>Total</u>
1996-97	13.88406	10.53120	6.03568	.53266	.005	30.98860
1997-98	14.66973	10.61512	5.86845	.60796	.005	31.76626
1998-99	12.36841	11.03105	5.61720	.59515	.005	29.61681
1999-00	12.57794	10.38155	5.37794	.55951	.005	28.90194
2000-01	11.82399	10.74693	5.36311	.60985	.005	28.54888
2001-02	12.03710	10.91229	6.29521	.62121	.005	29.87071
2002-03	11.92593	10.95505	6.45078	.94866	.004	30.28442
2003-04	12.20166	11.84505	6.38161	.54141	.004	30.97373
2004-05	13.65668	12.34320	6.86233	.57204	.004	33.43825
2005-06	13.61467	13.38780	7.06811	.69873	.004	34.77331

TAX LEVIES

1996-97	\$ 531,217	\$ 413,632	\$ 237,062	\$ 20,921	\$ 196	\$ 1,203,028
1997-98	575,979	407,915	225,511	22,755	192	1,232,352
1998-99	523,051	524,071	266,866	28,275	238	1,342,501
1999-00	544,844	509,236	263,799	27,445	245	1,345,569
2000-01	544,579	598,378	298,613	33,956	278	1,475,804
2001-02	568,509	642,041	370,388	36,550	294	1,617,782
2002-03	594,770	634,348	373,530	54,932	232	1,657,812
2003-04	552,236	710,839	382,970	32,491	240	1,678,776
2004-05	612,963	712,714	396,240	33,030	231	1,755,178
2005-06	\$ 702,767	\$ 810,893	\$ 428,007	\$ 42,311	\$ 242	\$ 1,984,020

State law limits maximum tax rate for the General Fund to \$8.10 per thousand dollars of assessed valuation (100 percent basis) effective July 1, 1976.

Limitation does not include debt service.

Taxes Due July 1.

Taxes Delinquent First Half - October 1; Second Half - April 1.

Penalties for Delinquency: 1 Percent per month.

Discount Allowed: None

Uncollected Taxes Handled as Follows: Delinquent real estate tax list published in newspaper prior to May 16.

Taxes collected by Monona County and distributed to the City of Onawa in proportion of its levy to all levies.

Tax Sale Date: First Monday in June.

CITY OF ONAWA, IOWA

TABLE VI

Special Assessment Collections
Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Current Assessments Due</u>	<u>Current Assessments Collected</u>	<u>Ratio of Collections to Amount</u>	<u>Total Outstanding Due Assessments</u>
2001-02	\$ 140,038	\$ 19,792	14.13%	\$ 120,246
2002-03	120,246	12,029	10.00	108,217
2003-04	174,527	46,788	26.81	127,739
2004-05	127,739	36,693	28.72	91,046
2005-06	\$ 148,005	\$ 29,471	32.37%	\$ 118,534

TABLE VII

Ratio of Net General Obligation Bonded Debt
to Assessed Value and Net General Obligation Bonded Debt Per Capita
Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Popula- tion</u>	<u>Taxable Value</u>	<u>Gross Bonded Debt</u>	<u>Less: Debt Service Monies Available</u>	<u>Net Bonded Debt</u>	<u>Ratio of Net Bonded Debt to Taxable Value</u>	<u>Net Bonded Debt Per Capita</u>
1996-97	2,936	\$ 39,276,769	\$ 1,375,000	-	\$ 1,375,000	.035 to 1	\$ 468.32
1997-98	2,936	38,427,762	1,380,000	\$ 29,444	1,350,556	.035 to 1	459.99
1998-99	2,936	47,508,752	1,239,286	22,495	1,216,791	.026 to 1	414.44
1999-00	2,936	49,052,416	1,098,572	13,397	1,085,175	.022 to 1	369.61
2000-01	3,091	55,678,983	972,857	1,872	970,985	.017 to 1	314.13
2001-02	3,091	58,836,549	847,143	-	847,143	.014 to 1	274.07
2002-03	3,091	57,904,591	711,429	-	711,249	.012 to 1	230.10
2003-04	3,091	60,011,516	2,151,429	-	2,151,429	.036 to 1	696.03
2004-05	3,091	57,741,439	1,995,715	-	1,995,715	.035 to 1	645.65
2005-06	3,091	\$ 60,554,613	\$ 1,845,000	\$ 4,684	\$ 1,840,316	.035 to 1	\$ 595.38

CITY OF ONAWA, IOWA

TABLE VIII

Computation of Legal Debt Margin

June 30, 2006

Assessed Property Value	
Total Real Estate and Corporation	<u>\$ 96,350,748</u>
Debt Limit - 5% of Total Actual Valuation	\$ 4,817,537
Amount of Debt	
Applicable to Debt Limit:	
Total Bonded Debt	<u>1,845,000</u>
Legal Debt Margin	<u>\$ 2,972,537</u>

TABLE IX

Computation of Direct and Overlapping Debt

June 30, 2006

<u>Name of Governmental Unit</u>	<u>Percentage Applicable Net Debt*</u>	<u>To This Governmental Unit</u>	<u>City of Onawa Share of Debt</u>
City of Onawa, Iowa	\$ 1,840,316	100%	\$ 1,840,316
Monona County	-		-
West Monona School	-		-
Total	<u>\$ 1,840,316</u>		<u>\$ 1,840,316</u>

* Net debt outstanding is total bonds outstanding less funds available for debt service.

CITY OF ONAWA, IOWA

TABLE X

Ratio of Annual Debt Service Expenditures for
General Bonded Debt to Total General Expenditures
Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>	<u>Total General Expenditures</u>	<u>Ratio of Debt Service to Total General Expenditures</u>
1996-97	\$ 70,000	\$ 32,665	\$ 102,665	\$ 731,804	14.03%
1997-98	70,000	85,818	155,818	1,013,318	15.37
1998-99	130,000	72,882	202,882	909,597	22.30
1999-00	130,000	65,133	195,133	844,152	23.12
2000-01	115,000	57,227	172,227	851,002	20.24
2001-02	115,000	50,595	165,595	931,644	17.77
2002-03	125,000	43,878	168,878	1,024,885	16.48
2003-04	60,000	67,148	127,148	1,081,972	11.75
2004-05	145,000	85,887	230,887	1,027,126	22.48
2005-06	* \$ 140,000	\$ 81,405	\$ 221,405	\$ 1,009,479	21.93%

* The City of Onawa issued bonds of \$505,000 to refinance existing debt. The City retired \$645,000 which included the refinanced bonds. The net retirement was \$140,000.

CITY OF ONAWA, IOWA

TABLE XI

Water Revenue Bond Coverage
Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Gross Revenues</u>	<u>Direct Operating Expense</u>	<u>Net Revenue Available For Debt Service</u>	<u>Debt Service Requirements</u>			
				<u>Princi- pal</u>	<u>Interest</u>	<u>Total</u>	<u>Coverage</u>
1995-96	\$ 258,366	\$ 244,731	\$ 13,635	\$ 46,288	\$ 3,044	\$ 49,332	.28
1996-97	262,732	235,602	27,130	35,594	460	36,054	.75
1997-98	*						

* - Paid off in 1996-1997.

TABLE XII

Demographic Statistics

	(1)	(1)	(1)	(2)	(3)
<u>Per Fiscal Year</u>	<u>Population</u>	<u>Capita Income</u>	<u>Median Age</u>	<u>School Enrollment</u>	<u>Monona County Unemployment Rate</u>
1970	3,154	\$ 2,659	38.3	1,154	4.1 %
1980	3,283	7,168	39.2	833	5.4 %
1990	2,936	10,826	43.2	733	4.2 %
2000	3,091	17,928	42.3	679	3.1%

Sources:

- (1) Bureau of Census
- (2) Annual School Census
- (3) Iowa Department of Job Service

CITY OF ONAWA, IOWA

TABLE XIII

Property Value, Construction, and Bank Deposits

Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Commercial (1) Construction</u>		<u>Residential (1) Construction</u>		<u>Bank (2) (3) Deposits (in Thousands)</u>
	<u>No. of Units</u>	<u>Value</u>	<u>No. of Units</u>	<u>Value</u>	
1996-97	(3)	\$ 605,030	38	\$ 5,114,053	\$ 78,101
1997-98	6	1,611,709	4	942,664	75,655
1998-99	3	3,349,853	1	6,482,623	80,342
1999-00	(6)	389,133	3	1,027,724	84,020
2000-01	(6)	1,371,424	3	1,350,230	82,253
2001-02	(3)	2,229,289	3	3,543,752	83,553
2002-03	(3)	(24,634)	(7)	641,368	83,867
2003-04	(2)	(28,771)	(3)	2,585	93,954
2004-05	21	3,125,585	(1)	(267,178)	85,037
2005-06	(1)	\$ (233,809)	(2)	\$ 559,460	\$ 95,877

The 2004-2005 information includes annexed property (including land).

(1) Includes new construction and remodeling.

(2) Combined deposits in three banks (Source: Bank Financial Statements).

(3) Combined deposits in four banks for 2005-2006 (Source: Bank Financial Statements).

TABLE XIV

Principal Taxpayers
June 30, 2006

<u>Taxpayer</u>	<u>FY2005-06 Assessed Valuation</u>	<u>Percentage of Total Assessed Valuation</u>
Regal Manors of Onawa, Inc.	\$ 2,299,145	2.38%
Western Iowa Cooperative	1,659,824	1.72
Onawa – Pam Limited Partnership	1,146,494	1.19
Westendorf, Inc.	1,061,653	1.10
Vetter Equipment	850,000	.88
Bradley Properties, LLC	824,000	.85
NILS Holdings LLC	738,098	.77
Brett and Debra Ewing	647,179	.67
Longlines, Inc.	629,559	.65
Burgess Health Center	597,279	.62
Total	\$ <u>10,618,231</u>	<u>10.83%</u>

CITY OF ONAWA, IOWA

TABLE XVI

Miscellaneous Statistics
June 30, 2006

Date of Incorporation	1859
Form of Government	Mayor - Council
Area	4.7
Miles of Streets	40
Number of Street Lights	357
Fire Protection:	
Number of Stations	2
Number of Volunteer Firemen	23
Police Protection:	
Number of Stations	1
Number of Policemen and Officers	6
Education:	
Number of Schools	1 Public (Elementary, Middle, High School Early Childhood Development)
Municipal Water Department:	
Number of Consumers	1,466
Average Daily Consumption	528,833 Gallons
Miles of Water Mains	39.5 Miles
Miles of Sewers:	
Sanitary Sewers	28 Miles
Lift Stations	4
Building Permits Issued 2004-05	80
Recreation and Culture	
Number of Parks	4
Number of Libraries	1
Number of Volumes	25,036
Total Library Circulation	30,432

COMMENTS AND RECOMMENDATIONS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2006

Part I: Summary Of the Independent Auditors' Results

- A. Unqualified opinions were issued on the financial statements.
- B. A reportable condition in internal control over financial reporting was disclosed by the audit of the financial statements and is considered a material weakness. See II-A-06
- C. The audit did not disclose any noncompliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements

Reportable Condition:

II-A-06 Segregation of Accounting Functions

Observation - An important aspect of internal control is the segregation of accounting functions among employees. Several incompatible accounting functions regarding cash receipts are handled by the same employee.

Recommendations - We recommend that one employee be designated to open the mail and make a prelist of receipts, one employee post the receipts and the employee who opens the mail make the bank deposit.

Response - Due to the limited number of personnel in the office, it is not feasible at this time to break down the segregation of duties any further.

Conclusion - We realize that there are limited number of personnel available and we agree with the City's response. Our purpose in making this observation is to remind management of the careful attention and scrutiny of the records that is necessary when a limited number of personnel are available which makes ideal control impossible.

Instances of Non-Compliance:

No matters were reported.

Part III: Other Findings Related to Required Statutory Reporting

III-A-06 Certified Budget - The City amended its budget during the fiscal year ended June 30, 2006, and disbursements did not exceed the amount budgeted in any function, but the amended budget was not adopted by May 31.

Recommendation - The budget should have been amended by May 31 in accordance with Chapter 384.18 of the Code of Iowa. Budget amendments in future years should be completed by May 31 to allow adequate time for a protest hearing and decision prior to June 30.

Response - Future budget amendments, if necessary, will be examined and adopted in a timely manner, as provided by the Code of Iowa.

Conclusion - Response accepted.

III-B-06 Questionable Disbursements - We noted no disbursements for parties, banquets or other entertainment for employees that we believe may constitute an unlawful expenditure from public funds as defined in an Attorney General's opinion dated April 25, 1979.

III-C-06 Travel Expense - No expenditures of City money for travel expense of spouses of City officials or employees were noted.

III-D-06 Business Transactions - No significant transactions between the City and City officials or employees were noted.

III-E-06 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure the coverage is adequate for current operations.

III-F-06 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not. Closed sessions appear to have been handled and documented according to Chapter 21 of the Code of Iowa.

III-G-06 Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

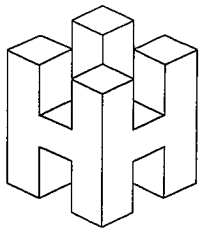
III-H-06 Financial Condition - There were fund deficits in the following individual funds at June 30, 2006:

Special Revenue - TIF	\$ 467,472
Special Revenue - Employee Benefits	\$ 11,839
Capital Project - Library Expansion	\$ 188,258
Capital Project - 2004 Street Project	\$ 137,924
Capital Project - 2005 Street Project	\$ 201,930
Capital Project - 2006 Street Project	\$ 77,877
Capital Project - Community Center	\$ 71,521
Capital Project - 15 th & Marble Street	\$ 12,485

Recommendation - The City should monitor these funds and investigate alternatives to eliminate these deficits.

Response - The City intends to finance these deficits from various resources including general funds, special assessments to be collected, and future property tax levies.

Conclusion - Response accepted.



HENJES, CONNER &
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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor and
Members of the City Council
City of Onawa, Iowa

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the CITY OF ONAWA, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated September 20, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Onawa's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Onawa's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in Part II of the accompanying Schedule of Findings and Questioned Costs, as Item II-A-06.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider Item II-A-06 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Onawa's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part III of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2006, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Onawa and other parties to whom the City of Onawa may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Onawa during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Henges, Conner + Williams, P.C.
Certified Public Accountants

Sioux City, Iowa
September 20, 2006

CITY OF ONAWA, IOWA
